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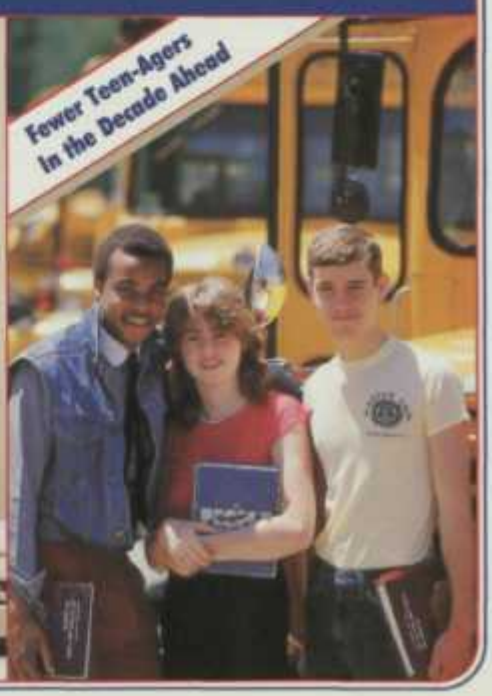
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A dwindling teen-age population will have an impact on employment and marketing. **18**



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Delta Airlines knows how to keep good employes. Its concern for them is reflected in their concern for it. **37**



Small Business is congratulated

MANAGING YOUR BUSINESS

Cover Story 18
The future of companies of every type and size will be affected by dramatic demographic trends. You will miss out, if you are not aware of them.

Catching Rubber Checks 29
Millions of bad checks are written yearly. There are ways to keep them out of your cash register.

What Is Goodwill Worth? 32
In evaluating a business, putting a price on intangibles is frustrating. Here is how to do it.

Keeping Good People 37
Some firms don't just call employes their most important assets, they treat them that way.

How Loctite Became a Leader 42
Sales of the liquid-adhesives firm Robert Krieble heads have risen 6,000 times since he joined it.

Strategies for Success 69
Stuart Karl's brainstorm about home video nonfiction led to a true tale of business triumph.

Herbert Lance has been a stutterer all his life, but that has been no handicap in his ventures.

Careful study of the market enabled W. Melvin Brown to score in defense manufacturing.

Steven Passin's healthy young company shows other companies' employes how to stay well.

SMALL BUSINESS

Key Role in the Expansion 16
Two administration officials credit small firms with being largely responsible for the economy's current level of expansion.

What CEOs See Ahead 46
CEOs' expectations for their companies have leveled off on high ground, a survey indicates.

Small Business' Best 53
William Terry Fuldner, Small Business Person of the Year, began his odyssey toward national recognition when he was fired from a big company.

56
An honor roll of entrepreneurs: finalists in the Small Business Person of the Year competition.

TECHNOLOGY

Computer Retailing Explosion 49
Here is a rundown on a growth industry, in which franchises in particular are proliferating. There are now nearly 4,000 computer specialty stores.

BUSINESS ISSUES

Union Demands 14
Two auto makers this month begin collective bargaining talks that could have far-reaching effects. Union workers could lose by winning.

July 1984 • Vol. 72, No. 7

PHOTO: JUDITH SLOAN



Person of the Year William Terry Fuldner by President Reagan on his selection. **53**

PHOTO: HERMAN J. KOKOJAN—BLACK STAR



A new study shows Hispanic-Americans on the move in the business world. **62**

PHOTO: PETER VANDERMARK—STOCK BOSTON



Canadian-built equipment in Boston: Two nations discuss freer trade. **77**

Product Liability Problem **57**

Congress has yet to take action on a jumbo jumble that many say costs billions in higher prices.

States' Spending **65**

The statehouses are flush, thanks to economic recovery, tax hikes and tighter purse strings. Will there be a return to old spending habits?

SPECIAL FEATURES

Board Room and Pulpit **34**

Many church leaders have attacked business as responsible for assorted economic and social ills. A counterattack is now under way.

Hispanics' "Secret" Success **62**

Frank Sepulveda started his company with a loan he didn't have to repay if he flopped. The loan was unusual, but not his success. Hispanic business growth is America's "best-kept secret."

TRADE

Steeled for a Fight **31**

Steelmen want Congress to give them import relief. Critics say other industries would be hurt.

Border Barriers **77**

America and Canada are considering ways to remove obstacles to free trade between them.

DEPARTMENTS

James J. Kilpatrick **5**

The good news on regulation of business—and the bad.

Washington Letter **7**

An inside report on events and trends in the nation's capital.

For Your Tax File **9**

Internal Revenue gets strict on "cafeteria" benefit plans.

Letters **10**

School prayer, federal spending, company earnings.

Personal Finance **68**

To some analysts, gold has new glitter as an investment.

Take a Stand **72**

What is your opinion on these issues of concern to business?

Classified Ads **74**

To Your Health **76**

It's true: Laughter is good, if not the best, medicine.

Congressional Alert **79**

How to inform decision makers of your views on legislation.

Editorials **80**

THE COVER: MAP : RAND McNALLY-INFOMAP, INC. PHOTOS (FROM LEFT): STEVE SMITH, T. MICHAEL KEZA, KEN TOUGHTON

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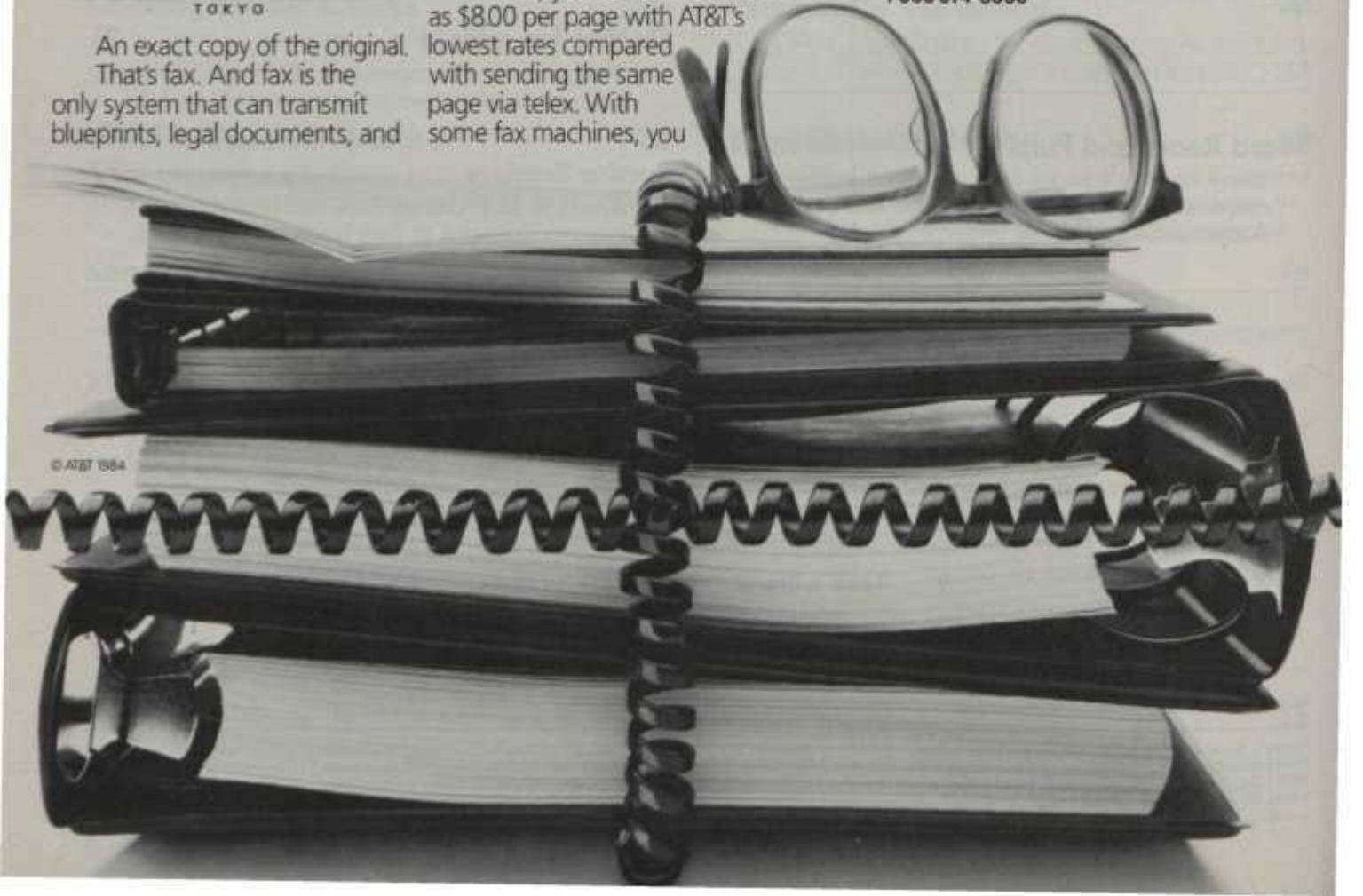
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BY JAMES J. KILPATRICK

The Good News on Regulation

DURING HIS campaign four years ago, Ronald Reagan frequently defined his version of supply-side economics as a program consisting of four elements. Most political observers could tick off the first three—a significant reduction in taxes, a corresponding reduction in federal spending, a stable monetary policy. The fourth element, which Reagan regarded as equally important to the domestic economy, was a reduction in federal regulation of the business community. His goal was to make government "part of the solution and not part of the problem." He wanted "to get excessive government off the back of business."

As things turned out, Congress gave the President most of what he wanted in tax reduction and some of what he wanted in spending reduction. The best that can be said in the matter of the money supply is that the level of stability has not been all that Reagan hoped for. A few weeks ago the Center for the Study of American Business took a close look at the fourth element in the President's economic formula. What is the news on federal regulation?

As you might expect after looking at the picture on taxes and spending, the findings on business regulation are mixed. On balance, there is more good news than bad news. The center's data merit your attention.



The explosive growth we saw in the 1970s has been halted.

First the bad news. The combined budgets of 55 major regulatory agencies, which declined sharply in 1981 and 1982, are rising again. Reagan had asked a 7 percent reduction, in real terms, from 1982 to 1984; he got a 1 percent increase in that period instead. The authors of the center's study, Kenneth W. Chilton and Ronald J. Penoyer, conclude that "early efforts to rein in the regulators through the budget process have run out of steam."

But there is another side to the story. The remarkably good news is that the number of federal employes directly engaged in regulatory activity has dropped dramatically—from 90,500 in 1980 to about 77,500 full-time regulators today. In this period, the staff of the Consumer Product Safety Commission has dwindled from 871 to 558. The Food and Drug Administration is down from 7,419 to 7,187. At the National Highway Traffic Safety Administration, the drop has been from 874 to 495. The Occupational Safety and Health Administration has cut its regulatory staff from 3,015 to 2,355. Other agencies that have experienced substantial reductions include the Civil Aeronautics Board and the Federal Maritime Commission. The Interstate Commerce Commission has lost almost half the full-time regulatory staff it had four years ago, and the Council on Wage and Price Stability has been wiped out altogether.

To be sure, there have been a few expansions of regulatory activity, notably in areas of the environment, but this is the remarkable record: Between 1980 and 1984, only 5 agencies increased their staffs, 1 stayed at the same level, and 49 saw their payrolls cut. The explosive growth of federal regulation that we witnessed in the 1970s has been halted. We cannot expect further dramatic cuts in either staff or spending, but we can expect a kind of plateau.

Chilton and Penoyer necessarily were concerned in their study with data that could be neatly quantified. There is no very good way to get at the intangible changes in federal regulation that also have occurred. My own guess, based on some years of watching the Washington bureaucracy in action, is that these nonmeasurable changes are at least as notable.

When the Consumer Product Safety Commission first charged onto the regulatory scene, it did some remarkably silly things. I recall one case in which the commission acted recklessly and vindictively against a California importer of ornamental dolls; the company was almost wiped out. I remember some of the foolish pronunciamentos of the Occupational Safety and Health Administration. "Do not fall into manure pits!" That was the sound advice OSHA had for stockyards workers. Some of this nonsense began to disappear under Jimmy Carter, who struggled as manfully as Reagan against bureaucratic excesses. We still hear of abuses, such as the CPSC's unwarranted war against the urea formaldehyde foam insulation business, but such stories come along infrequently. The burden of federal paper work has in fact been reduced in many areas. Viewed as a whole, federal regulation takes on the aspects of a typical day in early summer: mixed clouds and sunshine.

IT NEEDS to be said, if only for the record, that much federal regulation is good, and wise, and wholly in the public interest. The most ardent advocate of free enterprise is no friend to botulism, and the most dedicated states' righter sees virtue in uniform national rules on prescription drugs. Reasonable-minded observers always will disagree on how much regulation is too much regulation. My own feeling is that we have moved over the past four or five years, with some exceptions, from the unreasonable to the reasonable. In a less than perfect world, that is about all we have a right to ask. □

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WASHINGTON LETTER

▶ REAGAN ADMINISTRATION is urged to take more aggressive stand against idea that deficit problem is so severe that only big tax boost will solve it. U.S. Chamber of Commerce points out that real test of government deficits is in impact on credit markets. Combined federal, state and local revenues for calendar year 1984 are expected to add up to some $1.25 trillion, against projected $1.37 trillion in outlays. That puts total amount governments will be borrowing in credit markets at $121 billion, far from $200 billion level claimed as justification for tax increases, Chamber says.

▶ THE BUSINESS FEDERATION also notes that government accounting practices distort spending totals because capital expenditures on assets to last for many years are shown as one-time outlays, in sharp contrast with the way business accounts for such spending. Chamber says argument that tax increases are needed to deal with deficit is further undermined by federal budget activity this year. Responding to supply-side stimulus of tax cuts, economy produced additional $41 billion revenue in first seven months of fiscal year, while spending increased $15 billion.

▶ U.S. TAX COURT BACKLOG, a record 58,000 cases, could be cut with better management, says General Accounting Office. Court, which sends judges from Washington to 105 cities to hear cases, should improve scheduling, meet in fewer cities and start automating routine procedures, GAO says, noting court has yet to use word processors and computers to reduce paper work burden. Court officials, agreeing that 14 months to issue opinions after trial is too long, are beginning automation program.

▶ BUSINESS HAS BEEN fighting threat to workers' compensation system in provision of environmental legislation that backers are trying to rush through House. Bill would reauthorize Superfund for cleanup of hazardous waste sites. One provision would allow workers alleging illness from exposure to hazardous substances to sue employers in federal courts. Without some limitation, provision would attack basis of workers' compensation, which operates at state level, provides no-fault coverage to employes, who give up right to sue for damages.

▶ FAST ACTION BEING SOUGHT on Superfund bill is particularly disturbing to business because the present act does not expire until next year, and there is plenty of time to study implications of proposed change. On other hand, several major environmental laws like Clean Air, Clean Water Acts have expired, and Congress has been unable to reach consensus on terms of renewal. Terms of old laws remain in force under stopgap authority. Capitol Hill insiders say Superfund provides members opportunity to produce election-year environmental trophy while avoiding difficult decisions on other antipollution measures.

▶ NATIONAL LABOR RELATIONS BOARD, under Reagan-appointed majority, is vigorously defended by former Chairman Edward B. Miller, who served 1970-74. Miller says charges by unions and several congressmen that board is pro-management or union busting are "incredible." He says new board is making more conservative interpretations of law, but fundamental principles "have not been changed at all."

▶ ANNUAL WAGE REPORTS to Social Security Administration on W-2 forms are still

filed on paper by most employers. SSA is trying to get more large employers to use magnetic tape or diskettes, as almost all of largest companies do. It says it could save most of the $75 million it now spends processing the reports and could speed up the system, too. Agency is quoting testimonials from companies like U.S. Steel, which says magnetic reporting saves it 25 percent in paper and labor costs.

▶ DEFAULTED STUDENT LOANS will cost more than 40,000 federal workers up to 15 percent of their paychecks starting this month. About 10 percent have begun paying voluntarily to avoid the mandatory withholding. Department of Education says it is owed $2.7 billion on delinquent student loans. Colleges with delinquency rates above 10 percent will also be penalized, with reductions in federal loan funds; those above 24 percent will get no funds. At some colleges and universities, rate is as high as 80 percent.

▶ YOUTH DIFFERENTIAL WAGE, despite promotion by administration and approval of National Conference of Black Mayors, is given little chance of passage in Congress. Insiders say too many members fear to buck unions, which have traditionally opposed youth wage, saying it would displace adult workers. Labor Secretary Raymond Donovan denies this, says bill allowing employers to hire teen-agers at $2.50 an hour (75 percent of legal minimum wage) for the summer "could produce employment for as many as 400,000 youths."

▶ SURVEY OF ROBOT DEVELOPMENT and artificial intelligence (machines that think) is available. Study, made by National Aeronautics and Space Administration and National Bureau of Standards, presents overview plus description of applications for robots in business and elsewhere. Three-volume report is published by National Technical Information Service, Springfield, Va. 22161.

▶ U.S. INDUSTRIAL PRODUCTIVITY gains led most nations' in 1983. Bureau of Labor Statistics reports U.S. manufacturers chalked up 6.2 percent productivity improvements, second among six major industrial trading partners. Canada was first with 6.8 percent. U.S. unit labor costs in manufacturing declined 0.8 percent, compared with 7.2 percent rise in 1982. However, continued appreciation of dollar kept this country at labor-cost disadvantage in trade.

▶ FAST-FOOD WORK IS FUN, apparently. Study by National Institute of Work and Learning, headed by former Labor Secretaries Willard Wirtz and John Dunlop, found 67 percent of workers enjoy their jobs, more than half say they are "proud" to be working in fast food. Mean length of employment for 3.5 million people in industry is 18 months.

▶ DECONTROL OF ALL NATURAL GAS would help reduce trade deficits, says Independent Petroleum Association of America President Jon Rex Jones. Jones says economic study shows 1.5 million to 2 million barrels of imported oil could be displaced by gas if producers were motivated by decontrol to go after more of the nation's 200 trillion cubic feet of proven reserves.

▶ DEMOCRATS HAVE THEIR OWN GENDER GAP, says political analyst Kevin Phillips. While critics of Reagan administration accuse it of insensitivity to concerns of women, Phillips declares, many blue-collar males see the Democratic Party "as responsible for the wimping of America." Party's concern with "snail darters, gay liberation and Third World countries with more U.N. delegates than college graduates is not the ticket at Joe's Bar and Grill," Phillips told a business audience in review of current political scene.

▶ ECONOMIC RECOVERY HAS BEEN UNDER WAY for year and a half, but congressional block still insists national industrial policy is needed to halt recession. Two House committees have cleared bills to put government into economic planning through such steps as loans to qualified industries. Business generally opposes such proposals as foot in the door to centralized economic planning that has failed wherever tried.

Limiting "Cafeteria" Choices

By Gerald W. Padwe, C.P.A.

Until 1979, employers' benefit plans could not embrace both taxable and nontaxable benefits. Employes could not, for example, get cash, which would be taxable, in lieu of nontaxable employer-paid life insurance premiums.

Congress changed that in passing the Revenue Act of 1978, which specifically blessed such flexible benefit plans. Since then, "cafeteria" plans that permit employes to choose among a variety of taxable and nontaxable benefits have spread rapidly.

As the plans have grown in number, the Internal Revenue Service has become increasingly concerned that many of them may invite abuses—in particular, that they may invite employes to juggle benefits not to meet their families' needs but to obtain the most favorable tax consequences. IRS has now issued proposed regulations, in question and answer form, that would tighten the tax treatment of cafeteria plans. Among the most important of the proposed rules:

- Unused benefits could not be carried from one year to the next.
- An employe could not switch from one type of benefit to another during the plan year, unless there were a change in family status (marriage, divorce, death of a spouse or child, birth or adoption of a child, termination of a spouse's employment).

Critics of the proposed regulations quickly complained that they could disqualify plans put in effect when no such guidance from IRS was available. IRS has responded by making clear that, in general, the proposed regulations would not disqualify any plan in effect in a tax year that began before May 7 (the date the regulations were published in the *Federal Register*).

A hearing on the proposed regulations is scheduled July 26.

Tax Treaty With China

On April 30, in Peking, President Reagan and Premier Zhao Ziyang signed an income tax treaty between the United States and the People's Republic of China. The proposed pact, which now must be ratified by the U.S. Senate, covers a full range of income tax issues and will affect all Americans working in China and American companies doing business there.

The new treaty sets lower withholding rates than those in most tax treaties between the United States and developing countries. Applicable rates include 10 percent on dividends and certain interest and royalties and 7 percent on rentals from industrial, commercial and scientific equipment.

Importantly, China accepted the treaty without insisting on "tax sparing," which would require the United States to give a foreign tax credit for any foreign taxes forgiven by China because of a Chinese tax holiday. The United States has never agreed to tax sparing in a tax treaty. (We do, however, give the effect of tax sparing to Puerto Rico under our "possesaion corporation" tax rules.)

The proposed treaty contains provisions dealing with business profits and various forms of service income, including pensions. The treaty would allow self-employed professionals, as well as employes, to spend up to 183 days in China during a calendar year without being subject to Chinese income tax.

The treaty will take effect on January 1 of the year following ratification by both countries. The Senate may act this year.

Super-IRAs

For financial institutions interested in attracting deposits, how about this for a marketing ploy? Offer interest rates of up to 20 percent on individual retirement accounts (tax deferred to depositors, of course) but only if customers make matching deposits in companion checking or savings accounts that pay little or no interest. The interest rates on these so-called super-IRA accounts fall if the balances in the companion accounts fall below the IRA balance.

Unfortunately, according to the IRS district director in Chicago (where the accounts have been offered), IRS will treat interest in excess of the regular IRA rate as taxable interest earned on the companion account.

Worse, this interest will also be treated as a contribution to the IRA. If the taxpayer contributed the maximum $2,000 to a super-IRA, all of the excess interest will be regarded as an excess IRA contribution. Unless the excess is withdrawn before the due date for the taxpayer's income tax return, it will be subject to a 6 percent excise tax. A late withdrawal by a taxpayer not yet age 59½ would be subject to a 10 percent premature distribution penalty, but only if the regular IRA contribution plus the excess interest exceeded $2,250. The excess interest would be subject to ordinary income taxes on interest in any event.

The IRS national office is studying the district director's opinion and may issue its own statement on super-IRAs soon.

Accountants' Workpapers

The May column noted the *Arthur Young* decision of the U.S. Supreme Court, which held that IRS has the right to obtain an independent accountant's tax accrual workpapers. Despite business concern about the decision's effects, the column suggested that the case was unlikely to lead to radical changes in IRS policy.

IRS has responded to the *Arthur Young* decision in a formal announcement that reconfirms its policy of self-restraint. That policy is articulated in the *Internal Revenue Manual*, which represents IRS' instructions to field agents examining tax returns.

The relevant manual section provides that access to accountants' workpapers may be had only in "unusual circumstances" and reminds agents that taxpayers' records are the primary sources of data. Before going to an independent accountant and asking to review tax accrual papers, an agent must first:

- Identify specific issues on which additional facts are needed.
- Seek information from the taxpayer concerning those issues.
- Discuss with the accountant what information may be available from him without resort to audit workpapers.

Before a summons can be issued for the workpapers, it must be approved in writing by the chief of the local IRS district examination division. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific cases.*

GERALD W. PADWE *is national director–tax practice for Touche Ross & Co.*

More Thoughts on School Prayer

I think that James J. Kilpatrick ["Some Thoughts on School Prayer," May] and everyone else talking about prayer in the schools are overlooking the basic issue.

Would Christians be pleased to know that on Thursdays their children sat through Moslem prayers laced with statements that the Moslems' religion was the only one? (Jewish children in this country experienced this for years when all the predominantly Christian schools blatantly made such claims in their presence.)

Would people be willing to have their children sit through prayers in all schools and have religious platitudes from each religion on given days?

Nothing should be instigated that can or will, in any way whatsoever, cause any child to feel different or left out because other children are doing something that his religion and family are not in agreement with.

Let's leave prayer in our homes and in our churches, freeing teachers and the schools to do what they are there for—to provide secular education.

JOE WILLIAMSON
Williamson's, Inc.
Spartanburg, S.C.

I feel that Kilpatrick is sadly myopic about human nature.

Constitutional arguments aside and theological considerations notwithstanding, the herd instinct is particularly strong in impressionable young people. What we do not need is prayer or silent meditation in our public schools, organized or unorganized, denominational or universal, in which children are coerced by the inexorable force of peer pressure to participate and possibly alter private belief systems.

I am not advocating the abolition of prayer. But I am saying that one's personal religious beliefs—or lack of them—are too sacred to display publicly in a secular learning environment where they might be held up to ridicule. Let's keep the public schools as a legally sanctioned oasis where young intellects may be allowed to develop without reference to religious pressures.

DANIEL GROTTA
Editor
Syndicated Writers Group
Boyertown, Pa.

What has happened to "One Nation Under God?"

Let people pray whenever and wherever they wish. They aren't trying to shove religion down anyone's throat. They are simply upholding their faith in God. Wouldn't denying them this right be a gross infringement of their privacy?

CAROL J. GANTT
Sterling, Va.

For an atheist like myself, religious innocence in a child is beautiful and disarming.

My only problem with Kilpatrick's conflict of conscience is: What happens to the child who is not of a religious bent if a voluntary prayer in public schools amendment is passed? Will that child be victimized by a law created to allow him freedom from religious persecution?

CLAYTON A. GOULD
New Orleans

Our own fault

Re: "The Pull of Protectionism" [May].

This business of the "undervalued dollar, overvalued yen" doesn't make much sense to me. Many dollars and yen are bought and sold every day. Why substitute your judgment that they are not valued properly for the market's judgment?

A large portion of our trade deficit is of our own making. Federal laws prohibit the export of Alaskan oil and natural gas and of logs cut on federal land. These laws were passed to benefit such special interests as environmentalists, the wood products industry and the

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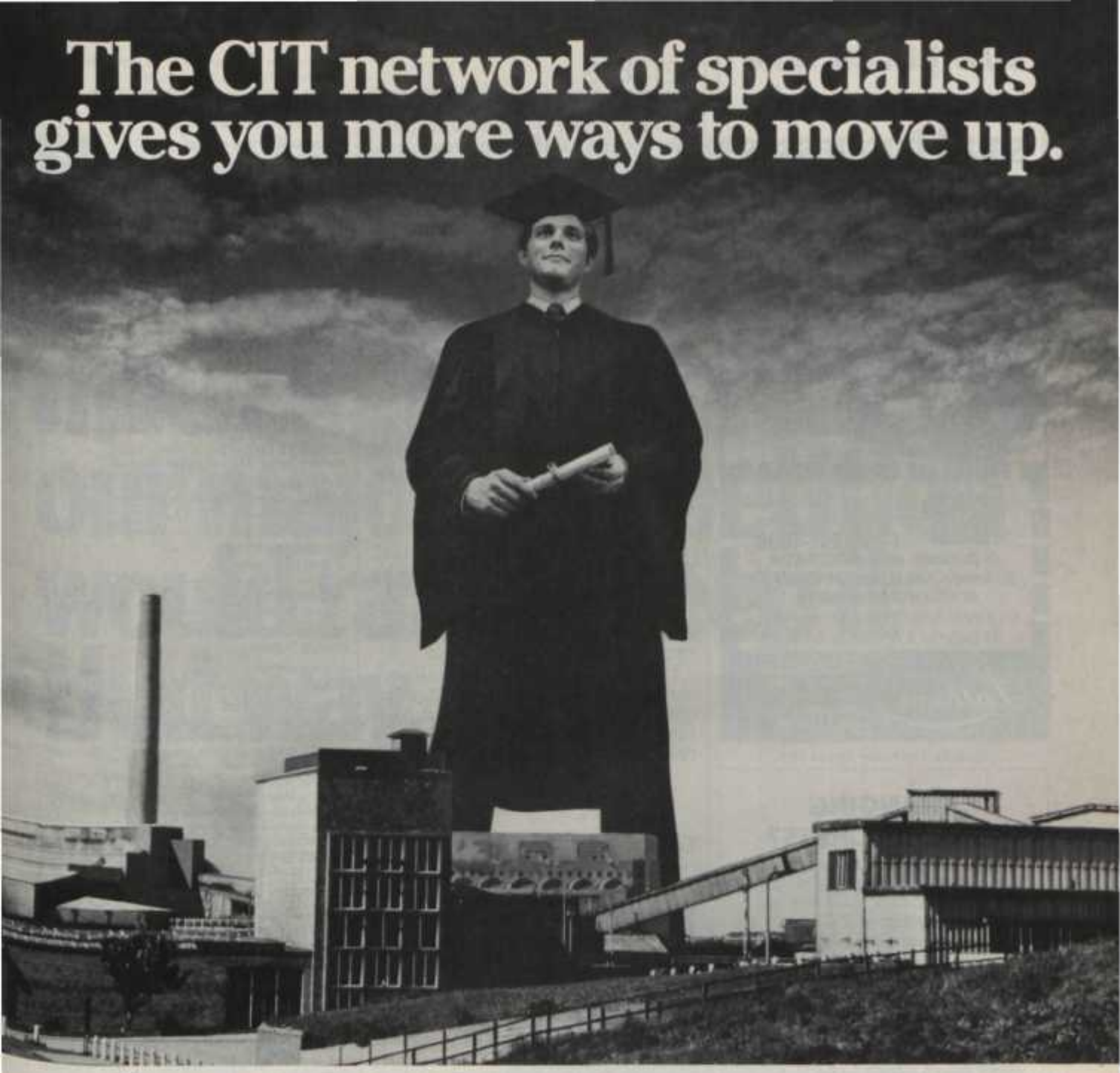
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LETTERS

maritime industry—another example of how Congress always supports special interests over the national interest.

Steve Hanke, an economics professor at Johns Hopkins University, estimates that our trade deficit with Japan could be reduced as much as 75 percent if these export restrictions were dropped.

We should change these laws rather than blame problems on the Japanese.

GENE STACY
York, S.C.

Grateful to Grace

In his May letter to the editor J. Peter Grace says that "controlling federal spending is so very important, and the problems must be brought to the attention of the American people."

His statement is supported by his much publicized efforts to do just that. We are grateful for the Grace report's disclosures about the money the federal government wastes on people who are no longer productive—retired federal employes and military personnel.

I am now looking forward to Grace's conclusions on controlling federal spending by eliminating contract overruns, excessive costs and billing for phantom goods and services.

ABRAHAM L. LASTNIK
Framingham, Mass.

Take a closer look

In Ray Brady's "How To Read an Annual Report" [June], he quotes Ted O'glove, publisher of the *Quality of Earnings Report*, concerning the effect that the cost of a company's products can have on its earnings.

Many people would be quick to assume that improved earnings are the result of an increased effort by the sales department. O'glove is correct in suggesting that potential investors look a little closer. Further investigation could reveal that the purchasing department provided the improved earnings through cost avoidance.

W. ALLEN JACKSON
Gulf Corporation
Houston, Tex.

How do you spell it ?

Please enlighten me regarding the spelling of the word employees ["Can Your Employes Read This?," June].

BETTY J. MCGRATH
American Business Credit Corporation
Blue Bell, Pa.

Editor's note: Both spellings, one e and two e's, are accepted. It is this publication's style to use one e.

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What the Auto Talks May Bring



PHOTO: WIDE WORLD

Auto workers on strike this spring at a Toledo parts company may herald more labor troubles next fall.

Labor contract talks in the automobile and coal industries dominate the collective bargaining calendar for the next six months. Those negotiations may have consequences that overshadow whatever wage and benefit gains are won at the bargaining table.

This month, formal talks start between two auto makers, Ford Motor Company and General Motors Corporation and the United Auto Workers, representing 469,000 hourly employes. (Chrysler Corporation's labor agreement expires in 1985.)

The current contracts expire September 14, and doubts that a strike can be avoided are growing in the industry.

Management and the union each face a dilemma.

For management: How to meet expected union demands for a bigger share of profits without sacrificing productivity gains won during the recession?

For the union: How to preserve jobs while securing a higher living standard for its members?

Since the last contract was negotiated, the number of UAW jobs at Ford and GM has fallen by 160,000. If the two companies give up too much in wage concessions—and then Japan's voluntary auto import quota lapses next spring—the number of union jobs could drop even more precipitously.

Under extreme pressure to maintain market share in the face of heightened Japanese competition, Ford and GM would be likely to speed up the use of robots and move more of their parts production abroad or to nonunion manufacturers in the United States.

The unions could thus lose by winning—and in more ways than one. If rapidly rising wages in the auto industry triggered an inflationary spiral, higher nominal wages would buy less. Big wage hikes rarely are enough to increase buying power when inflation is high. But when inflation is low, according to Labor Department figures, even moderate increases in wages usually are enough to increase buying power.

Federal Reserve Board Chairman Paul Volcker met late last year with groups of executives of companies with union contracts expiring this year. His message to them was to keep wage settlements down. So far, that message has been heeded.

Wage hikes in the first three months of the year averaged just 3.4 percent over a contract's life, compared with 8.1 percent the last time those contracts were negotiated. Increases in contracts settled in 1983 averaged just 2.8 percent, the lowest in the 16 years the Bureau of Labor Statistics has kept track of such information.

Sources close to the coal industry negotiations—hundreds of United Mine Workers contracts expire at the end of September—say the outcome of the auto talks could affect miners' wage demands. The pattern set in autos and coal also may influence contracts—covering 185,000 union members—that expire in the last three months of the year.

Meanwhile, UAW officials are pressing Congress hard for auto import restrictions. Some industry analysts say the union is seeking from Congress the job protection it may not be able to get at the bargaining table.

The Expansion's Life ...

How long will the current expansion last? There was no agreement, in a recent survey, among 195 members of the National Association of Business Economists.

About 12 percent say the current business cycle will peak in 1984, and 57 percent say it will in 1985. More than 30 percent say the expansion will continue beyond 1985.

The professional economists list high interest rates, large federal budget deficits and stiff foreign competition as the three factors most likely to cause the expansion to falter.

Says Nicholas Filippello, chief economist for the Monsanto Company and NABE president: "Prime interest rates are likely to continue moving up," as high as 13 percent by year's end. Contradicting many critics of higher rates, Filippello calls them "desirable" because they produce slower growth.

... May Be Extended

A senior Reagan administration official says that things could work out differently than the business economists predict. His reasoning goes this way:

The need to preserve the integrity of the banking system—witness the Continental Illinois Bank panic in May—and uncertainty over third world debt repayments have meant that the Federal Reserve Board has not tightened up on the amount of money going into the banking system, as many economists may have anticipated.

This easier-than-expected money flow could mean in turn that the economic expansion will be stronger and longer than the economists predict.

If this senior administration official is correct, these two unanticipated developments will have helped the Reagan administration in its battle against the Fed's tight money policies. Those policies have helped push up interest rates in recent months.

A Truism Overthrown

The conventional wisdom is that inflation always picks up in a recovery as industry starts to approach capacity. This time around, however, many observers have been surprised because inflation has remained under control even as the expansion has steamed ahead.

Prices of finished goods, excluding foods, rose an average of only 2.4 percent over the 12 months ending last April, according to the Labor Department. Reasons for this good news include stiff import competition, flat commodity prices, moderate labor cost increases, falling energy prices and higher productivity. □

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Giving Credit Where It's Due

The small business sector is largely responsible for the economy's current level of expansion, say two Reagan administration domestic policy advisers.

Job-generation efforts and continued growth among small firms, particularly in service industries, are key components of the recent recovery and this year's expanding economy, the two officials say.

"I feel very encouraged about the state of the economy and small business in particular," says Manuel H. Johnson, assistant Treasury secretary for economic policy, who, along with John A. Svahn, assistant to the President for policy development, conducted a recent briefing for small business reporters.



PHOTO: T. MICHAEL KEZA

Administration officials John A. Svahn (left) and Manuel Johnson salute small business' key role in the expansion.

Johnson notes, however, that many business people, from both large and small firms, are concerned that interest rates will continue to rise, thereby increasing the danger that economic growth will be short-circuited.

"Interest rates, certainly, are higher than we would like," Johnson says. "There is still a lot of speculation that this business cycle upswing will cause inflationary pressures down the road.... There is uncertainty about inflation and what will happen to interest rates."

Answering a question on whether the Reagan administration should substantially increase loans available from the Small Business Administration to help companies that cannot obtain working capital, Johnson says that the White House does not want to pursue "large-scale credit subsidization for any one sector of the economy," whether it is small business or any other.

If that were done, capital would flow artificially to sectors of the economy that might not otherwise see that level of investment, he explains.

"The best help to small business is a viable economy, without our trying to direct credit in any one direction," Johnson adds. "We are concerned about all of the economy, and we consider small business to be a major part and a source of great strength in the economy."

Svahn notes that the White House has a difficult task even now: "The key thing to do is to address some of the really tough questions while keeping the economy expanding."

Those tough questions, he continues, include the budget and trade deficits, unemployment among blacks and other minorities, and simplification of the tax system.

Svahn, who spent 2½ years as commissioner of the Social Security Administration before moving to the White House, characterizes the budget deficit as easy to eliminate—in theory.

"To fix it," he says, "you either increase revenues or decrease spending. That's easy. The problem comes in deciding how much of one or the other you adopt to balance the budget." He adds:

"You have to remember that the only problems that come to the White House and to the President are the ones with no solutions. And it takes time to work on those."

Eximbank Rules

The Export-Import Bank's lending and guarantee programs should be modified to ease the requirements on small companies, a business expert says.

Failure to ease some rules, adds Carlo B. Gentilomo, president of Contact Systems Corporation in New York City, could lead states to step in and do the job.

Gentilomo, whose company specializes in helping other firms develop export opportunities, testified on behalf of the U.S. Chamber of Commerce's small business council before a Senate subcommittee looking into small firms' export problems.

He says Eximbank should standardize its commercial risk coverage—an export financing insurance program—at 90 percent for single transactions up to $10 million.

Standardizing the rate, he says, rather than allowing Eximbank to continue with its lower, variable insurance rates, would encourage states to develop supplemental risk insurance coverage for exporters.

"Without such a change, individual states may try to set up their own export-import banks with lending and guarantee authority," Gentilomo told the subcommittee.

"The resulting bureaucratic, diplomatic and public policy problems," he continued, "could wreak havoc with international trade agreements, create competition among states for export business and make exporting more difficult for small firms."

Gentilomo also recommended to the senators that Eximbank grant discretionary lending authority to certain creditworthy, qualified banks.

Under such a program, he explained, a bank would make the final decision on a company's export financing application without having to consult Eximbank personnel.

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Want to salute small business? You can do it at the post office.

A newly released U.S. Postal Service stamped envelope honors America's small firms by depicting an array of small business signs in color on its lower right-hand corner. Storefronts are featured on the bottom left-hand corner of the envelope.

Unlike previous stamped envelopes issued by the Postal Service, the small business envelope does not include embossed images, but the corner designs extend to the back side.

The small business envelope sells for the same price as other stamped envelopes: 24 cents. □



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CHALLENGE TO BUSINESS:

America's Changing Face

By Harry Bacas

WINN-DIXIE, a major supermarket chain in the South, found itself facing unexpectedly tough competition when it opened new stores.

The reason: Competitors were providing clothing departments, drugstore facilities, delicatessens and other conveniences to serve the increasing numbers of working women seeking one-stop shopping.

Winn-Dixie President A. Dano Davis says the chain took an awful beating because it had not been sufficiently aware of how employment trends among women were affecting the retail business.

Trek Bicycle Corporation, of Waterloo, Wis., has done well making premium-priced, lightweight bikes for the upscale, fitness-conscious adults of the baby boom generation, but it now worries about spinning its wheels as that group ages.

Continued success is "going to require something other than the present bike," says William C. Graham, a vice president, noting that the company has put a three-member design team to work on specific models to be offered in changed markets.

J.C. Penney Company is planning future personnel policies on the basis of projections showing that the pool of younger workers will be substantially smaller over the next few decades than it is now. Penney expects to hire many clerks from the ranks of older workers, including retirees from other jobs.

That is but a sampling of how dramatic demographic changes in the 20th century's closing decades are affecting companies of all sizes and types.

The most significant of the changes, as depicted on this month's cover, include:

- Population movement, with the snow belt-sun belt shifts of the recent past now being modified by such developments as the recovery of major cities' residential areas.
- The maturing of the baby boom generation into adults in their most productive earning years. Workers ages 25-44 will constitute more than half the work force by 1990.
- The growing economic importance—not yet fully appreciated—of two-income, preretirement couples who have paid for their homes and their children's educations. Such couples

PHOTO: T. MICHAEL KEZA



PHOTO: KEN TOUCHTON



Two-income couples in their 50s, like Robert and Esther Ford (above) of Atlanta, with children grown and house largely paid for, figure significantly in retailers' plans. Couples in their 30s, like Jean and David Horwatt (left) of Los Angeles, represent a larger generation, with different tastes.

After baby boom came baby bust, as young people postponed marriage and childbearing. Schools and school buses are less crowded now.

enjoy substantial discretionary income.

• The sharp change from the baby boom years through the 1960s to the baby bust years that began in the 1970s, which will soon be reflected in a much smaller pool of teen-agers—with resulting ramifications for companies both as employers and as sellers of goods and services.

For generations, business envisioned the basic consumer unit in terms of the traditional family, the engine that drove the economic boom from the 1950s into the 1970s.

Now, says Cheryl Russell, research director of American Demographics, Inc., "The business that targets the stereotypical American family of a breadwinner father, a nonworking mother and two children is reaching an insignificant 6 percent of the household market. Businesses can no longer assume that households are families, that families are married couples or that married couples will have children."

In a report issued by the Population Reference Bureau, Russell adds that changes in the American population pose both a challenge and an opportunity for business. The changes, she says, "make it more difficult for businesses to track trends, but they also make it more important to do so. The fragmenting marketplace gives businesses the opportunity to tap household and lifestyle niches by designing specialized products and services."

For individual businesses, the overriding questions are: What are these changes? How do we keep informed of them? How do we use that information as a managerial tool?

In addition to the trends already mentioned, these are among developments that businesses should be figuring into their strategies over the next two decades:

• Women will represent more than 47 percent of the work force by 1995, compared with 32 percent in 1960.

• The percentage of women in the 25-34 age group who have attended college is already much higher than in the 35-plus group. These better-educated young women are likely to want careers in which they can command higher wages than their predecessors and to resist taking what has traditionally been considered "women's work."

• By 1995, 27 percent of U.S. households will consist of single individuals—30 million of them—constituting a market for goods and services far different than that offered by the standard family unit.

• The ranks of over-65 Americans will increase from 11 percent of the population now to 16 percent by 2020. The number of individuals over 85 will increase 79 percent by 1995.

• While the migration of Americans to the sun belt states will continue, it will be slower over the remainder of this century, and some states in the Northeast and upper Midwest will resume population growth that has faltered.

• The sun belt's future economic growth will depend mostly on establishment of new industries and new companies, rather than on relocation of established companies from other regions.

• Population shifts from metropolitan to rural areas, which reversed a 200-year American trend when they began in the 1970s, will slow, as will population decreases in metropolitan areas. Cities, whose deterioration as places to live drove families to the suburbs in the 1950s and 1960s, are gaining new appeal for today's younger professionals.

• The number of households will grow another 20 percent over the next 10 years, to a U.S. total of 96 million, continuing a long-term expansion that began after World War II.

• Husband and wife now work in 40 percent of all families, compared with 12 percent in 1959, and the ratio continues to increase. Demographers expect

Eating Out Is Definitely "In"

Increases in the number of wives working outside the home are having a profound effect these days not only on families' finances but also on the finances of restaurateurs.

Americans now spend 37 percent of their food dollars in restaurants. The Agriculture Department says that figure may reach 45 percent by the mid-1990s.

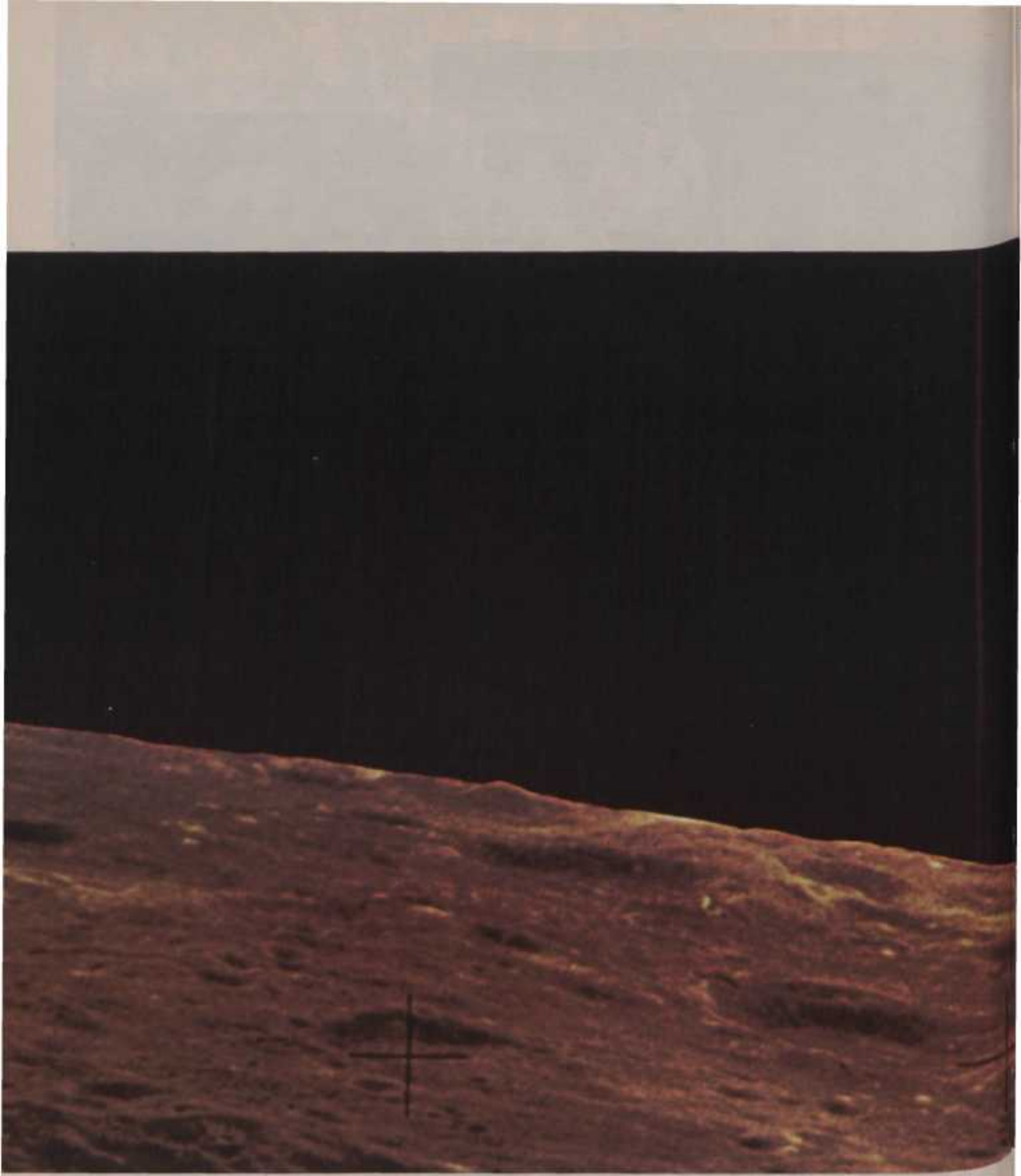
The latest Census of Retail Trade shows 231,334 eating places in 1982, compared with 185,506 in 1972.

Fast-food establishments proliferated—much more so than full-service restaurants. The number of fast-food restaurants nearly doubled, while that of full-service restaurants increased 9 percent.

Only 3 percent of full-service restaurants' business was carry-out, as against 37 percent at fast-food establishments.

While Americans are eating out more, they are finding fewer places to lodge away from home.

Despite a rise in the number of rooms, the number of hotels and motels dropped 13 percent, from 40,837 to 35,560.



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that sometime in the 1990s, the figure will be more than 50 percent.

• Immigration, mostly from Asian and Latin American countries, will account for most of the U.S. population growth in the next 10 years. Hispanics will come close to overtaking blacks as the largest minority group.

• Eight to 10 percent of women now in their 20s will never marry, compared with only 4 percent of women who were in their 20s during the 1950s.

• Men will feel the "marriage squeeze" more than women, however. Because of age bracket creep, there will be 5 percent more men than women in the main ages of first marriage (20-27 for men, 18-25 for women) by 1990 compared with a 10 percent excess of women in the mid-1960s.

• By the mid-1990s, with the overall population up 18 million from the present 235 million, there will be 5 million more pre-teen children than now—babies of baby boomers, who tend to marry late and become parents late. But there will be 9 million fewer teenagers. The number of people 31 to 56 will soar more than 20 million.

• The positive economic impact of the baby boomers' moving into and through their most productive years could lead to negatives as they reach retirement age and put an unprecedented strain on Social Security, medical facilities and other support services for the elderly.

PHOTO: T. MICHAEL KEZA



As stores and other employers face a coming shortage of young workers, they may call back older employes.

WHO ARE THE flesh-and-blood people behind the various statistics on the many changes in American society? Meet David and Jean Horwatt, members of the vanguard of the postwar baby boom.

David, 36, and his wife, Jean, 38, live in a rented duplex in an upper-income section of Los Angeles, between Beverly Hills and Hollywood. She is a senior legislative assistant with Lockheed Corporation, and he is a self-employed producer of films for television. Their children are Joshua, 5, and Eli, 1, ages that are representative of the delayed parenthood trend among baby boomers.

Both David and Jean are college graduates. They own two cars and have an IBM personal computer, which both use. Their combined income last year was between $80,000 and $90,000, but it will drop to about $50,000 this year—David lost some lucrative contracts when he moved from the East to be closer to Hollywood's television production centers. Despite the drop, the Horwatts' anticipated income for 1984 is still substantially above the $27,480 average for families whose wage earners are in their age brackets.

Jean says the Horwatts live like typical "Yumpies"—young, upwardly mobile professionals—a term that has come into wide use to describe a large chunk of the baby boom generation in its present position in the economy.

Robert H. Ford, 57, and his wife, Esther, 58, are in another category of interest to business demographers. They live in a four-bedroom, three-bath house on a half acre in an Atlanta suburb. Robert is vice president of an insurance agency, and Esther is executive secretary to the manager of a Marriott hotel.

Their home is nearly paid for, and their only child, now 34, lives in Annapolis, Md. They have a Compaq personal computer, which both use at home because it is compatible with the IBMs in their offices. Their income, Robert says, is "in excess of $60,000."

It is also in excess of what the Bureau of Labor Statistics reports is average—$33,686—for the 8.3 million two-income families with no children under 18, who represent 27 percent of all two-income families.

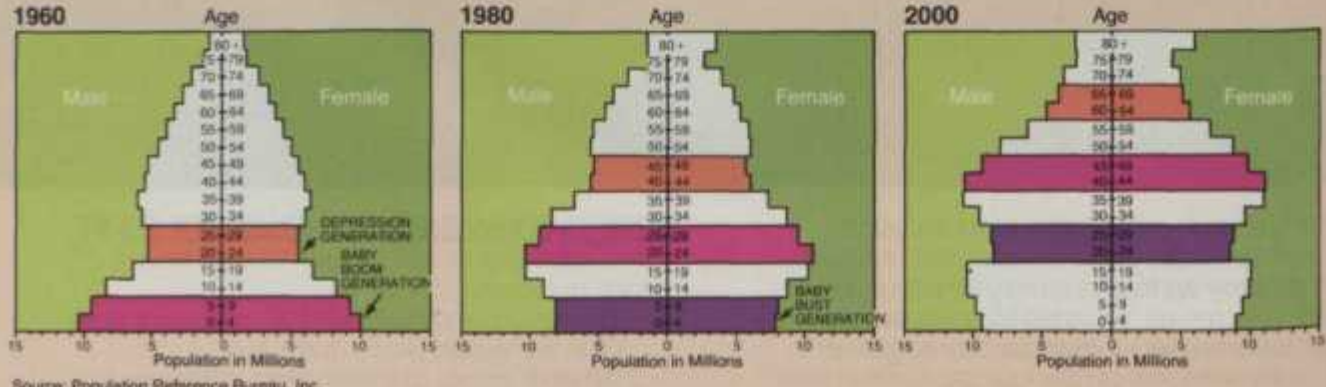
A REPORT BY THE Commerce Department's Bureau of Industrial Economics details the impact that the Horwatts, Fords, and others who are part of the changing face of America are having on areas of the economy:

Food: Retailers are likely to target the big, affluent 35-44 age group with more service departments and such offerings as premium-priced meat, wine and gourmet foods. Special needs of the over-65 category will also be given attention.

Automobiles: There are contrasting trends here—the driving-age population is growing at an average annual rate of only 1 percent, but the 25-44 age group, the biggest market for new cars, is going up 2.5 percent.

Leisure: The increase in the number

America's Uneven Generations



Source: Population Reference Bureau, Inc.

These charts show the relative sizes of five-year age brackets, broken down into male and female segments, at two points in the past and one in the future. Highlighted: Americans born between 1931 and 1940, 1951 and 1960, and 1971 and 1980.



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of young adults is being reflected in a high level of participation in such leisure activities as travel and strenuous sports, which will affect a wide range of providers of goods and services, from manufacturers of exercise equipment to operators of hotels.

Construction: The increases in household formations and individuals in the prime home-buying ages of 25 to 44 should bring a 3 percent annual growth in residential construction over the next five years, three times the growth of nonresidential construction. Mortgage and other interest rates, which have been edging up this year, could dampen the positive effects of these demographic trends, however.

Financial services: Competition for business from fast-growing, affluent segments of the population will intensify trends toward new techniques, such as around-the-clock automatic teller machines in commercial banking. Traditionally conservative insurance companies will move aggressively into new areas such as banking and brokerage services.

PHOTO: T. MICHAEL KEZA



At Bell Atlantic, Diane Schmidley works with demographic charts to plan telephone services.

High technology: This area is expected to show a gain of nearly 540,000 jobs from 1979 to 1987. By contrast, the smokestack sector is expected to suffer a net loss of 338,000 jobs in the same period. The result could be an overall decrease in the proportion of higher paying, blue-collar jobs and an increase in the proportion of lower paying technology/services jobs, both blue- and white-collar.

Motion pictures: The report says the rapid increase in nonfamily households is promising, "since nonfamily households attend movie theaters more frequently than the rest of the population. On the other hand, the decline in the number of teen-agers, the largest pool of movie patrons, and continuing low birth and marriage rates could have an adverse affect on theater receipts over time."

Experts stress the importance of business strategies that take the broad demographic changes into account.

In particular, says Robert Hagan, who heads a demographic consulting firm based in Alexandria, Va., "business should be tracking those changes that have a significant impact on lifestyles and consumer behavior."

He points out, for example, that more than 50 percent of households now contain only one or two persons, that the percentage is increasing, and that half of all women with children under 6 are in the labor force.

"As a result of these and other kinds of changes," he says, "product needs will become increasingly specialized, and businesses must adjust if they wish to compete successfully."

On the other hand, David Rogers, president of DSR Marketing Systems, of Deerfield, Ill., warns business not to "straight-line the past." He explains: "You can't take developments of the 1970s, like the great increase in the number of households, the falling size of the average household, and the increase in the number of working women, and say that is what's going to continue happening.

"The business community didn't realize until about 1978 that more women were working. Now they've gone overboard, and they think that any woman who works wears a Harris Tweed suit, carries an attaché case and goes out seven nights a week. The stereotype being formed is just as inaccurate as the old one. You have to look more carefully at the occupations working women are in."

Some women's groups are also among those who challenge the image of working women as highly successful careerists in, or moving toward, the business world's upper reaches.

Barbara Reskin, a University of Michigan sociologist, says the additional 1 million women entering the workplace each year command wide attention from government and the media. But, she adds, far less attention has been paid to the "equally striking" extent to which women are segregated in terms of occupations and promotions.

That segregation, she told a symposium sponsored by the Women's Research and Education Institute, leads to unequal wages: "The more 'female' the occupation, the less earned."

The National Association for Female Executives has a more upbeat view. It says fewer than 0.3 percent of working women earned $20,000 or more a year 12 years ago, but 8.6 percent make at least that much today. The average income of the NAFE's 100,000 members is $30,000 a year. It says its typical member is between 25 and 44, is married or living with someone, has no children, has completed college and has worked for more than five years.

Some 27 percent are in managerial positions, 23 percent in technical/professional categories and 15 percent in administrative jobs. Fifteen percent are self-employed.

THE CONFLICT IN reports on how women are faring leads business demographers other than Rogers to caution against hasty generalizations. In fact, one of the ironies of this era of swift demographic change is the extent to which long-held assumptions about such change are being challenged.

Just five years ago, says David Bradwell, who runs a consulting firm in San Rafael, Calif., "it was possible to take a relatively few population attributes and make reliable predictions of how members of a group would behave." But now, he adds, "You have the 60-year-old man who is a physical fitness enthusiast, and you have the clerk-typist who is in the market for transatlantic flights."

To keep up, Bradwell says, "business people will have to use increasingly sophisticated market analyses."

Providing such analyses are an array of private demographic firms—consultants specializing in national, regional and local trends as well as sectors of the economy. A Population Reference Bureau directory lists 77 such firms, plus data centers in 49 states and the District of Columbia, that can help businesses with demographic information.

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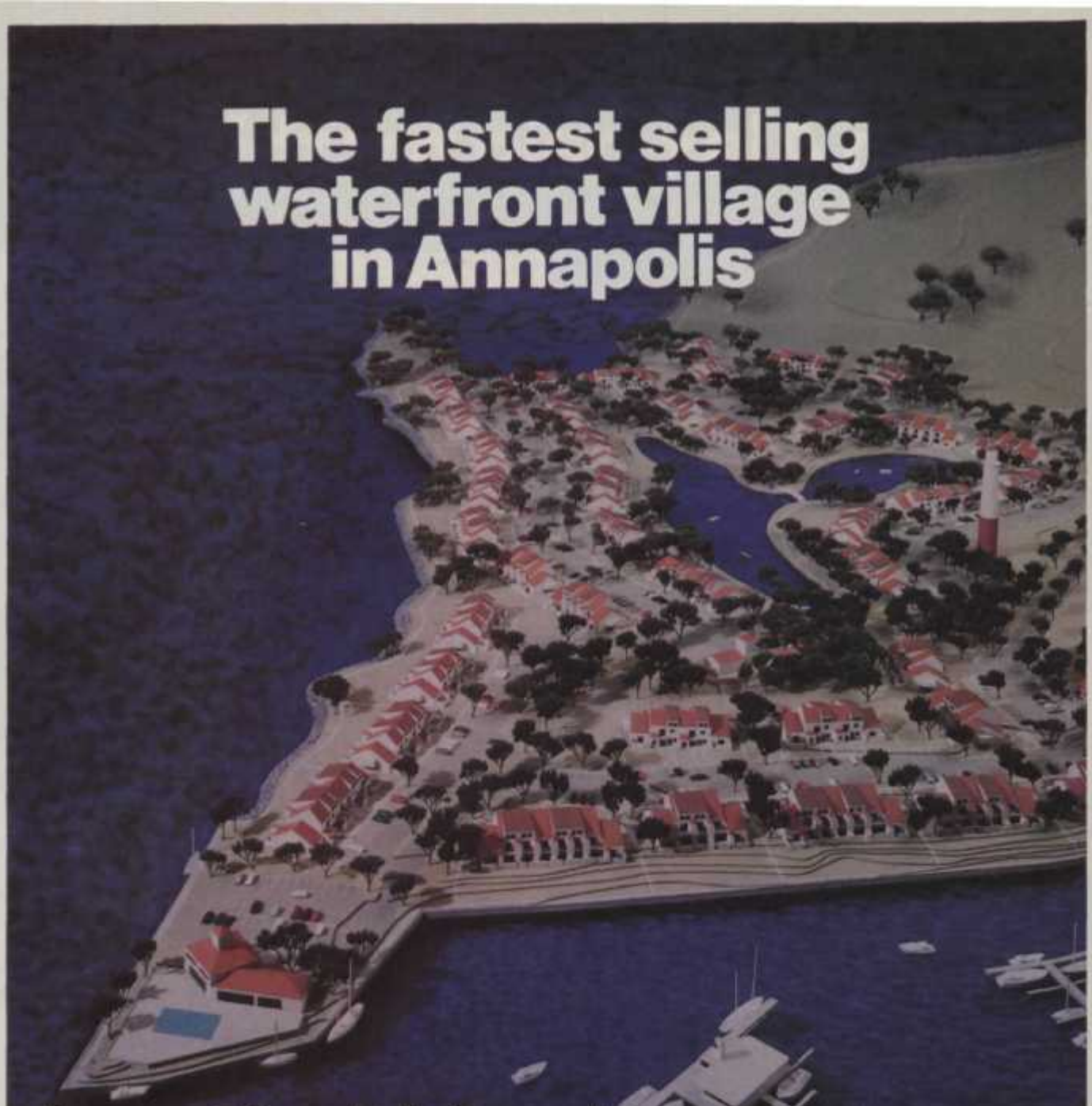
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The bureau, a nonprofit, private organization, comments: "The for-profit use of demography has become a major industry in the past 15 years. The private data companies and the businesses whose profits depend on them now form a major segment of our economy."

Harry O'Neill, president of Opinion Research Corporation, of Princeton, N.J., says the most effective way to use demographics is not to find out what has happened, but what is going to happen: "The key is to look at your product mix in terms of where the population is going and make the necessary changes in advance of the demographic changes, so you're ready to capitalize on them."

Minneapolis-based Dayton-Hudson Corporation plans to spend a major part of its expansion budget in sun belt states over the next five years. It has developed a personnel program to recruit and train Hispanics as store managers in recognition of the accelerating growth of the Hispanic population in the Southwest and California.

The time value of demographic information can be critical. The automobile industry needs information on situations several years down the road because of the long lead times involved in developing its products, while the entertainment industry needs short-term projections.

URBAN DECISIONS SYSTEMS, of Los Angeles, is one of the companies in the expanding business of business demographics.

A typical client might be an entrepreneur who wants to open a pizza restaurant or a store and has narrowed the choice of sites to four or five. The client asks for a population profile for the area around each location, as it now stands, and what it is likely to be in five years.

Or a client might know the customer characteristics that constitute the best market for a product or service and ask where to go to find that population.

One Urban Decisions client is Castle & Cooke, of San Francisco and Honolulu, a major grower and distributor of fruits and vegetables. It is considering distribution of a new line of premium-quality pineapples and bananas, and it needs income data, among other information, on potential markets.

Urban Decisions Vice President Tom Siedzik says another client, Merle Norman Cosmetics, is "an extremely sophisticated user of our data." The firm has developed its own detailed customer profile and matches it against demographic characteristics Urban Decisions provides for a given area. The closeness of the match indicates how much business a Merle Norman store would do in that area.

Urban Decisions' computers can produce maps for any size area, with color overlays for each of 37 different population characteristics, including race, age, sex, occupation, income and buying habits.

The uses to which different businesses put population information are as varied as business itself.

Bell Atlantic, one of the seven regional companies born in the breakup of the American Telephone & Telegraph Company, realized it had too many outside payment agents—banks and stores authorized to accept customer payments.

Company demographer Diane Schmidley was assigned to draft a plan that would not cause hardship. She analyzed each telephone exchange to determine how many elderly and poor it served. The number of agents was reduced in a way that did not adversely affect those groups, heavy users of the outside agent method of payment.

While business demographics is a relatively new science, its main components include such enduring considerations as birth and death.

Gerber Products Company, of Fremont, Mich., which is famous for its baby food, keeps a sharp eye on birth rates.

The company diversified into such areas as vaporizers and insurance when the baby bust began and moved into day-care centers when trends in employment of mothers indicated that running centers would be profitable.

On the other end of the life scale, Hillenbrand Industries, of Batesville, Ind., sees its casket business as relatively stable through the year 2000 because Americans are living longer. But it also makes hospital beds and expects to participate in the growth of health care as the population ages.

In between those extremes, businesses are adjusting their offerings to match the changing tastes and needs of the other age groups.

B. Dalton Bookseller, a chain of 700 stores that has catered to the well-educated young adults of the baby boom, recently added computer software and children's books to its shelves because that is what the baby boom members are starting to be interested in. J.C. Penney is mapping plans to provide travel services aimed at the approaching bulge of affluent two-earner families in their 50s and 60s.

PHOTO STEVE SMITH



In the map room of Urban Decision Systems, Jim Paris (left), Tom Siedzik and Monica Prince go over an area population analysis for a business client.

One measure of national interest in demographics is the increase in information production by the U.S. Census Bureau, whose work constitutes the raw material for most demographic analysts.

The decennial census represents the mother lode for such statistics, which are updated through a monthly survey of 60,000 persons. The 1950 census produced 50,000 pages of demographic statistics. The number grew to 100,000 in 1960, 200,000 in 1970 and 250,000 plus thousands of reels of computer tape in 1980.

Says Cheryl Russell of American Demographics:

"These statistics not only serve a hungry public, but they also feed the appetite of a growing community of businesses that offer specialized products and services.

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Catching Rubber Checks Before They Bounce

By Bob Gatty

Millions of bad checks are written every year. There are ways you can keep them out of your cash register.

PHOTOS: T. MICHAEL KEZA



Daniel Redding's liquor store once had a serious bad-check problem—but not since he began pursuing even those people who pass bad checks for small amounts.

THE DAILY DELUGE of returned checks that pours into his company's headquarters is described this way by L.J. Moret: "It's frightening. It's like a Niagara Falls."

Moret, corporate office manager at Giant Food, Inc., a supermarket chain based in Landover, Md., says that "everybody in our business has the same problem."

That statement might be extended to everybody in retailing. Each year millions of checks are returned by banks. The Federal Bureau of Investigation says annual bad-check losses could be as high as $4 billion.

The American Bankers Association says that of at least 40 billion checks written annually, about 1 percent are bad. The ABA also reports that check-writing is increasing (though the rate of increase is slowing because of the popularity of credit cards). Thus, the number of rubber checks is rising, too.

Another bankers' trade group, the Bank Administration Institute, estimates that about half of all checks returned by banks are paid the second time they are presented. Even so, costs to business victims are substantial.

Many banks impose fees on the payee as well as the check writer when funds are insufficient for payment. In addition, business must devote extra time to processing returned checks. Retailers in many states have complained to their legislators, and tough new laws against writing bad checks are going into effect in some jurisdictions.

Criminal penalties for passing bad checks vary drastically from state to state—and within a state, depending on the number of repeat violations and the amount of money involved.

In Alabama, for example, a first-time violator can be fined $50 to $100, if the check is for less than $100. But if more than $100 is involved, and the violation is the offender's third, the penalty can be a fine of $400 to $800 and imprisonment for up to 18 months.

Other states are much tougher. In Michigan and Minnesota, a repeat violator can be fined up to $10,000 and imprisoned for as long as 10 years.

The problem is especially serious in food retailing, since grocery stores handle a volume of consumer checks second only to that handled by banks.

MORET ESTIMATES that Giant, which has encouraged check cashing as a customer service, eventually collects on about 90 percent of the checks returned to it. He says bad-check passers fall into several categories:

- The person who writes a check knowing he has insufficient funds but expecting to deposit the money before the check clears. If he does not, of course, the check bounces.
- The person who counts on Giant to send the check back to the bank a second time at no charge, using the extra time to get the money.
- The person who waits for Giant to act. "We'll call twice," says Moret. "They know we'll write a letter. Then they'll pay."
- The forger who uses stolen checks or checks from nonexistent accounts to rip off retailers for either merchandise or cash.

Many retailers, particularly supermarket and general merchandise chains, use courtesy-card applications to scrutinize a consumer's credit and checking history before they authorize check cashing.

Some go further, using in-house computer technology or outside check-authorization companies to reduce losses.

At K mart Corporation headquarters in Troy, Mich., spokesperson Barbara Palazzolo says individual K mart stores are permitted to use whatever remedies they deem necessary. Some use authorization services like TeleCheck Services, Inc., or Comp-U-Check, Inc.

Larry Sharp, director of point-of-sales systems at Comp-U-Check in Southfield, Mich., says his company offers three options:

- A register of bad check passers may be purchased.
- A retailer may call and learn if derogatory information about a customer is on file. The nature of the information is not given.
- Comp-U-Check will guarantee the check after matching driver's license and birth date information against its files. The type of purchase and amount are also considered.

The firm has a collection service available to retailers that do not subscribe to the guarantee service.

TeleCheck Services, of Lakewood, Colo., uses a different marketing approach. President Jeffery Baer says it promotes TeleCheck users as warm, friendly firms with which to do busi-

ness. The subscribing merchant calls TeleCheck and within a few seconds receives an approval code, indicating whether the check should be accepted. Baer stresses that TeleCheck is sold on the basis of making the check-writing consumer feel welcome—not as a protection service for merchants. However, he acknowledges, there is a certain "confidence factor involved that makes the merchant use us." Undoubtedly, that confidence stems from the fact that if it approves a check, TeleCheck is responsible for collecting.



Only banks handle more consumer checks than grocery stores do. Result: Food retailers suffer huge losses from bad checks.

Check-authorization firms charge merchants a percentage of each check's face amount for their services. More than 80,000 merchants nationally subscribe to TeleCheck, says Baer.

A recent TeleCheck newsletter described a letter received from a man who had written two bad checks to a dating agency. "I must inform you that I am a federal agent on a mission . . . a top secret situation," he wrote. "My purpose is to bust the . . . 'dating agencies' for prostitution and to seek out a ring of cocaine smugglers using these agencies as a front. That is the purpose behind the checks."

He said he was counting on TeleCheck to keep the secret. "Even if you call the FBI in Washington, they will deny it to every extent possible," he added. "So I ask you to trust me, and when this is broken up, I will be happy to pay you."

The checks involved totaled $200. Eventually the author admitted his story was false.

W. BELL & COMPANY, a catalog showroom chain headquartered in Rockville, Md., is a TeleCheck customer, but it also has its own data base of bad-check passers, listed in its own computer and accessible from its point-of-sale terminals.

The company doesn't fool around, either. A "pretty strong follow-up system of letters and phone calls" is used, says Vice President Martin Pfeifer. Then a collection agency takes over. If fraud appears likely, the police are called.

Mars Market of El Monte, Cal., once suffered substantial losses from bad checks. "We were cashing $5 million a year in checks and losing as much as $20,000 a year in bad checks—the losses were killing us," recalls Mark Roth, the grocery store's owner.

Today, thanks to a computerized check-cashing program developed by Roth, losses are less than $1,000 a year. The information in the system is developed from application forms supplied when customers seek check cashing cards. It is updated as required. Now the store uses its willingness to cash checks to attract customers.

Bad checks were once a serious problem, too, for Daniel Redding, president of the Redding Rental Center and Joseph Square Liquors in Columbia, Md.

Redding does not use a check security service or even a file of bad check passers. He simply relies on his reputation—that every bad check he receives will be chased and that customers who stick him will be prosecuted.

"Until I started actively pursuing cases, I was getting more and more bad checks," he says. "The same people, too. People plan on its being more trouble than it's worth to pursue them. They think that if it is a small amount, the merchant won't do anything. Too often, they are right."

Fed up, Redding instituted this procedure:

First, he phones and asks for his money. If that fails, he sends a certified form letter giving the check writer 10 days to pay up.

If that fails, he calls the cops.

"Generally," says Redding, "a day or two after the police have served the warrant, the person calls and says he wants to make good. I tell him that's fine, but there is a $10 returned check fee to pay, too."

Still, about 10 percent of the people involved wait until trial day. "You'd be surprised at how many people will pay me in the courthouse, while waiting for the case to come up," Redding says.

One woman Redding took to court told the judge indignantly that she did not understand why she was being prosecuted for a $10 check. After all, she said, she had bounced lots of $40 and $50 checks at a local food store and had never been taken to court.

Like many cautious retailers, Redding examines the check number to determine how new the account is. Experts say most bad checks are written on recently opened accounts.

Redding wishes that Maryland banks would place the date an account was opened on checks. In Minnesota, Illinois and Virginia, recently enacted laws require financial institutions to do so.

The date-coding technique was developed by Frank Abagnale, an ex-convict and former hot-check artist who now heads a Boston-based consulting firm offering fraud prevention help for bankers and retailers. "About 90 percent of returned checks are from accounts less than six months old or are numbered between 101 and 150," he says.

ABAGNALE'S ESTIMATES of losses from bad checks exceed government estimates. Grocers alone lost $4.4 billion in 1982, he says, and bad checks were probably responsible for one third of business closings that year.

Retailers must impose stiff fees for returned checks and have effective check approval systems if the problem is to be solved, contends C.M. Anderson, president of Gibson Products Company of New Mexico.

Anderson, whose firm owns two large general merchandise stores in Alamogordo and Las Cruces, N.M., says retailers also must take strong action against bad-check artists: "If laws are not enforced, people are too tempted."

Alamogordo, using a program developed by Anderson and promoted by the local chamber of commerce, has just about wiped out its bad-check problem. In fact, Anderson says, several stores actually make money on bad checks—fees they have established for returned checks offset losses on those that end up uncollected.

Under the program, retailers:

- Advise local prosecutors and judges that cooperation in enforcing the law is expected.
- Ask banks to be more careful in opening accounts.
- Urge banks to print the account's opening date on checks.
- Establish fees for returned checks and post signs to that effect.

Such a system, says Anderson, can control the bad-check problem in a community in 90 days and eliminate it within a year. □

Steeled for a Fight

THIRTY YEARS AGO, the American economy used 111 tons of steel for each $1 million of the gross national product. Today, thanks to improvements in steel durability and the increased use of substitutes like plastics and metal alloys, the country uses half as much. In the meantime, the number of steel-producing nations has grown from 32 to 84.

With domestic demand declining and foreign supply burgeoning, the United States' steel industry is being squeezed as if it were caught between the pincher walls of a scrap metal crusher.

Steel manufacturers and the United Steelworkers of America assert that imports—which account for 26 percent of American consumption—must be restricted by quotas to 15 percent for five years in order to give the industry time to retool and become competitive.

But the Reagan administration, backed by free traders in Congress, insists that import relief would only perpetuate the industry's sluggish performance, at the expense of steel consumers.

The two sides have joined battle over an industry-sponsored "Fair Trade in Steel" proposal in Congress. Says U.S. Steel Corporation Chairman David Roderick: "The alternative to passage of this legislation is the continued involuntary liquidation of the American steel industry, the loss of more jobs, economic disaster for many steel communities and the erosion of an industrial base vital to both a healthy economy and a strong national defense."

Foreign imports have almost doubled in six years, according to Senate Steel Caucus Chairman John Heinz (R-Pa.), rising from 14 percent of domestic consumption in 1976 to 26 percent now.

"Financially," says Heinz, "the industry's performance has declined from mediocre earnings in the period 1977-81 to the disaster of over $6 billion in losses over the past two years. Over 200,000 steelworkers lost their jobs during this period."

Don't blame labor, says United Steelworkers President Lynn Williams. He contends that "labor costs per ton shipped, in actual terms, are dropping significantly" as workers accept pay cuts and more efficient production methods.

The steel industry wants Congress to give it import relief. Opponents say that would hurt other industries.

Labor costs per ton shipped decreased from $158.38 in 1980 to $137 this year, Williams told House Ways and Means Committee members.

Foreign governments, protectionists say, are subsidizing cheap steel sales abroad to keep their industries' work force employed. The administration acknowledges that unfair trade practices exist, but it proposes dealing with them on a case-by-case basis, before the International Trade Commission.

COMMERCE SECRETARY Malcolm Baldrige brands the protectionist measures self-defeating. "Global steel quotas," he says, "would force up costs of production for all industries that consume steel. The metalworking industries of our economy employ 20 times more people and account for almost 10 times more of the GNP than the steel industry. They would be hit with a one-two punch of inflated raw material prices and increased import competition as our trading partners moved their export mix into products fabricated from steel."

Baldrige adds: "Because many of these industries are already import-sensitive, enacting steel quotas would generate strong pressures for protecting a vast array of downstream industries. The multiplier effect of steel quotas is enormous."

The International Trade Commission in June ruled that American steel makers are being injured by foreign imports. The ITC is expected to ask President Reagan to impose protective measures, either quotas or tariffs.

U.S. Trade Representative William Brock, in close contact with America's trading partners, predicts retaliation affecting $6 billion worth of American exports if the legislation is enacted.

South Korean rolled sheet steel and cheap imports from some 80 other nations are stiff competition for U.S. producers.

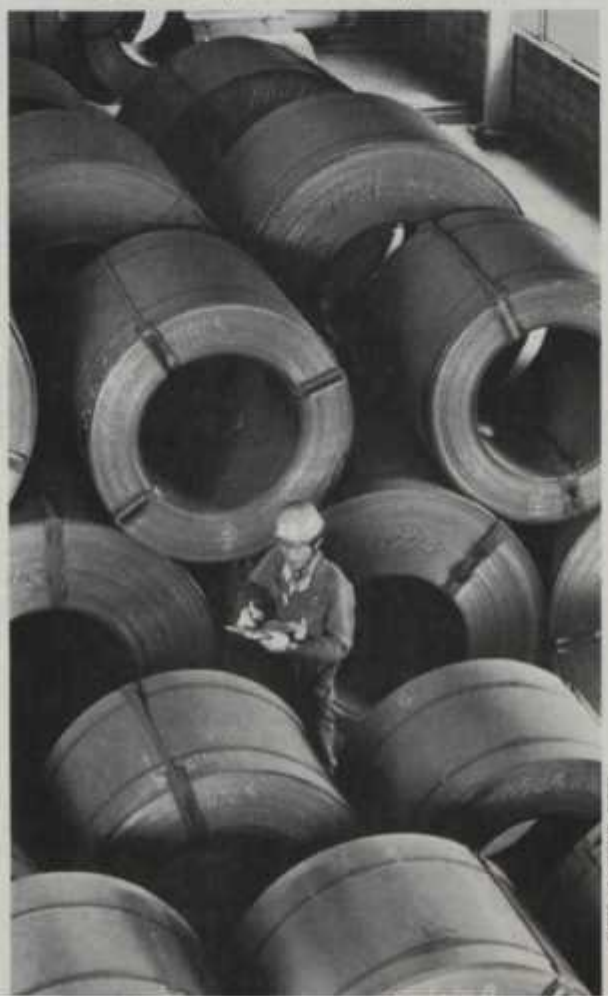


PHOTO: J.P. LAFFONT—SYGMA

"Imports are not responsible for the American steel industry's crisis," argues Fred Lamesch, president of the American Institute for Imported Steel, Inc., and head of the steel importing firm of TradeARBED.

"The problem springs," says Lamesch, "from declining use of steel, obsolete equipment, high wages, the strong dollar. History shows trade protection stops steel plant modernization. It is only when Big Steel faces vigorous import competition that modernization increases, obsolete capacity is closed, and the steelworkers union is pressed into concessions on wages, fringe benefits and work rules."

America's trading partners may help to take some of the steam out of the drive for legislation. Already this year, Mexico and South Africa have voluntarily agreed to reduce their exports of steel to the United States.

And no one disagrees that the U.S. steel industry's survival ultimately depends not on legislation but on its adjustment to the historic changes of the last few decades. □

—Henry Eason



ILLUSTRATION: WILLIAM COULTER

Translating Goodwill Into Dollars

By Alan W. Johnson

Assigning a value to intangibles can be as frustrating as trying to put moonlight in a bottle. But here is how you can do it.

JERRY CRONIN seldom thought about his business' value until he tried to work out a survivorship agreement with his partner. Cronin and Gary Davidson wanted to ensure that, if one died, the other would retain control of their Foster City, Calif., company, Marketron. The firm supplies computerized scheduling and market analysis to television stations.

Cronin knew Marketron had assets not shown on the balance sheet: eight years of software development, hundreds of satisfied users, a good lease on its headquarters and unique hardware applications. Then there was the "going business value": relationships with suppliers and banks, fully depreciated improvements, trained employes, name recognition, systems and procedures.

Piloting a vintage DC-3 outfitted as a showroom, Cronin flies to the customer's hometown. Marketron is in a highly competitive field, where a flair for the dramatic pays off.

How do you put a price on personal skills, reputation and the other factors that make up that elusive commodity known as a business' goodwill? Conservative appraisers contend that citing these intangible assets only massages the egos of management unless the assets also produce exceptional income. Goodwill must be demonstrated through preferential treatment by customers, these appraisers say. But suppose big earnings are all in the future?

One approach is to isolate key intangibles, separables from the business: patents, trade names, software, contracts, leasehold interests, mailing lists, franchises, drawings. Then identify those that have a determinable life, legally or economically. Finally, value each independently over the useful time remaining.

New companies often have weak balance sheets but are developing substantial assets through research and development. Using one of the following methods should provide a better fix on this hidden worth:

- Cost to create. Cost does not necessarily represent value, but it may be an important clue. Says Bill Hambrecht, president of San Francisco venture capitalists Hambrecht & Quist: "It is very difficult to judge technology companies by balance sheet assets. When you build a software product, you write off the cost. The thing to look at is not the asset value but how much has been invested in the project."
- Royalty or relief from royalty. If a patent generates royalty payments, that is measurable value; if your new development replaces a process on which you paid license fees, that is another. Forecast an income stream or cost saving over time. The Internal Revenue Service requires a determinable life if you claim depreciation.
- Competitive advantages. Cost-cutting processes, trademarks that boost sales and favorable contracts to buy scarce materials all make profit contributions. Assign them values and an economic life. The combined worth of all intangible assets is one benchmark of goodwill.

WHEN you run out of separable intangibles, the mixed bag containing the balance of goodwill confronts you. Here is where reputation, advertising and absorbed start-up losses come in. Time for an earnings test.

IRS uses an ancient regulation, ARM 34, modified by rule 68-609, to identify the value of goodwill through "excess" earnings. Three assumptions are required: (1) A reasonable return on invested capital can be established. (2) Net earnings above this return are excess. (3) An appropriate multiplier can be applied to this excess to put a dollar amount on goodwill.

If realistic rates (20 to 25 percent) are used in fixing a reasonable return, many businesses show no excess. Therefore, it is preferable to appraise the business as a whole, using past profits or future income forecasts. Then, any value above book equity is goodwill.

One test uses a weighted average of pretax earnings for the past five years, divided by a rate (often 20 to 30 percent) that combines the current yields on risk-free investments (for example, Treasury notes) with an estimated risk factor. Example: $100,000 in average pretax profits divided by .20 yields a value of $500,000 for the firm. If the book value is $400,000, subtracting it indicates $100,000 in goodwill.

Another test: Forecast an after-tax income stream for the next five years. Discount it back to present value, using an inexpensive financial calculating device. Next, estimate the firm's net assets in five years. Discount these at the same five-year rate. Add the two sums and subtract book value. Example: The present value of $100,000 net earnings per year for five years at a 25 percent discount rate is $268,900. The present value of $705,000 of assets in five years discounted at the same rate is $231,000. Total indicated value: $500,000. If book value is $400,000, the goodwill is $100,000.

In Marketron's case, two independent methods—a software investment analysis and a future earnings forecast—both indicated substantial goodwill value. The final agreement between the partners called for regular independent appraisal.

To value goodwill properly it is important to understand the industry, use appropriate techniques, check the results against experience and apply common sense. □

ALAN W. JOHNSON *is president of Johnson Hershey Corporation of San Rafael, Calif., specialists in business valuation.*

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W. David Stedman (left) and Thomas Sowell are among executives, scholars and clergy discussing capitalism's compatibility with religious belief.

The Board Room And the Pulpit

Many church leaders attack business. A counterattack is now under way.

A FEW YEARS ago, when J.P. Stevens & Company was battling a labor union drive to organize its employes, the United Methodist Church supported a union-sponsored consumer boycott of the textile manufacturer.

That action was part of a rising wave of attacks on business by church leaders, Protestant and Catholic alike. Business people have been denounced as selfish breeders of inequality in wealth, responsible for assorted economic and social ills.

Now a counterattack is under way.

Helping business to fight back is the National Foundation for the Study of Religion and Economics, founded in 1982 by a coterie of North Carolina business leaders. Headquartered in Greensboro, N.C., and chaired by a leading textile industrialist, W. David Stedman, the organization provides a forum in which economists, theologians and business people can examine areas where their disciplines overlap. Formed more recently was the Lay Commission on Catholic Social Teaching and the U.S. Economy, composed of prominent Catholics with backgrounds in business, government and other fields.

Among the commission's leaders are former Treasury Secretary William Simon, who heads the organization; Alexander Haig, former Secretary of State; industrialist J. Peter Grace; and Clare Boothe Luce, a member of the President's Foreign Intelligence Advisory Board and widow of publishing giant Henry Luce.

The commission's aim, says Simon, is to "give lay Catholics who have a practical understanding of economic affairs an opportunity to contribute their hard-won experience and knowledge in applying religious values to the economic issues of our day."

Anticipating that U.S. Catholic bishops will issue a pastoral letter in November criticizing the American economy and the capitalist system, Simon's group is preparing a "Letter of Laity on Catholic Social Teaching and the U.S. Economy" as a response.

Capitalism is increasingly threatened by a pervasive animus in religious circles, maintains Stedman, chairman of the North Carolina-based foundation. This is ironic, he says, in view of the fact that the free market concept—the right to exchange goods and services, to own property and to have a limited government—"has its roots in some of the most profound Judeo-Christian beliefs. Man is endowed by his Creator with freedom of choice. It is this very concept of freedom of choice that is the cornerstone of the free market system."

At a recent foundation seminar in Raleigh, N.C., concerned business executives heard several prominent scholars and clergymen discuss the business-religion rift and its ramifications, as well as possible solutions.

The Rev. Richard John Neuhaus, executive director of the Center on Religion and Society in New York City, says there is widespread belief among the clergy that "the business climate is inherently tainted."

Neuhaus says he holds "no illusions about business," but he is convinced that there is a necessary connection between religious freedom and human freedom, both of which are "only



William Simon heads a Catholic group "applying religious values to economic issues."

served where there are democratic governments. And wherever there are democratic governments, there are largely free market policies."

JUST LOOK TO HISTORY, and you will see that "capitalism has not fomented oppression," says the Rev. Donald W. Haynes, senior minister at Christ United Methodist Church in High Point, N.C.

Capitalism has raised living standards for millions of average Americans, he notes: "When Betsy Ross made the flag, straight pins cost 20 cents each; by 1840, they were 20 cents per 100. Eli Whitney's invention of the cotton gin meant the employment of thousands. John Deere's plow led to the opening up of the Midwest as the breadbasket of this country."

He sums up: "Profit need not be made at another person's expense."

Michael Novak, resident scholar in religion and public policy at the American Enterprise Institute in Washington, says democratic socialism is alluring to church leaders because "it seems to be made in the image of the way the world should be if human beings were cooperative and generous and charitable. It is a system for saints."

Under democratic capitalism, on the other hand, "human beings are viewed as they are—not as you would have them be. It is a system that brings out their most creative capacities and then institutes checks and balances" to put a muzzle on their "worst capacities."

Novak slaps down what he says is a major fallacy—an argument that capitalism is antithetical to cooperation between individuals and breaks up the community spirit. Capitalism is "the most social system that human beings have ever invented," he says. Capitalism—unlike socialism, which uses coercion and "collectivist schemes"—employs voluntary principles and such "associative schemes" as teamwork to create institutions like corporations.

The idea that only government can help the poor is false, says Walter Williams, an economics professor at George Mason University in Fairfax, Va. "Today's poor don't need handouts" in the form of welfare and food stamps, he asserts. "They need what yesterday's poor received: golden opportunities. Government destroys people's choices and options. The free market is in the business of expanding these options."

Thomas Sowell, senior fellow at Stanford University's Hoover Institution, maintains that "the problem of government policymaking is that no consideration is given to the inherent limitation of human beings. You can't move people around like chess pieces. Too much emphasis has been placed on vision, on assumption dictating policy, while no focus has been placed on cause and effect."

A foundation manifesto says the U.S. Constitution assures primacy of the people over government by embodying the concept that the people's rights are granted directly by the Creator—not by the state—and that the people grant rights to government.

But an increasing diet of government intervention is slowly and surely eroding U.S. freedoms, Stedman says. One cannot go into the "very simple business of barbering" without government permission. Thousands of new regulations and laws go into effect annually, each "taking away some little chunk of freedom previously enjoyed."

Stedman says government's "complete lack of fiscal responsibility"—the $1.4 trillion federal debt stems in great measure from subsidies and welfare programs, he says—"could be the greatest threat to our freedoms."

He chastises business people for being part of the problem instead of the solution—for "talking out of both sides of their mouths."

"We don't like big government spending, but we get all kinds of government goodies for our local communities or our own businesses," he points out. "Many of our outstanding business leaders support government bailouts of failing industries at the expense of consumers and taxpayers."

Novak berates business people for taking a resigned, "insensitive" attitude toward an "ideological struggle" that threatens their destruction.

Look at television shows like "Dallas," he says, which "make businessmen seem like absolute fools, thieves and knaves." What do businesses do? Buy commercials on these programs. "Businessmen are the most passive minority in America—the only such group that can be made to seem villainous without a protest and be expected to pay for it," Novak says.

Business leaders need to come out of their board rooms, assume leadership within their churches and proselytize, Neuhaus says.

PETER FLANIGAN, managing director of Dillon, Read & Company in New York and a member of the Lay Commission on Catholic Social Teaching and the U.S. Economy, would agree. He says that Catholic lay people have a responsibility to "put forth their thoughts on matters in which they have competence."

He says the commission wants "to elucidate, to expand the minds of the Catholic populace to think wisely and carefully" about religious and economic values and "how they meet on many different planes." Flanigan adds: "We are not doing this in a confrontational manner."

Archbishop Rembert Weakland, chairman of the bishops' committee on the economy, says the commission's activity should be "most helpful."

It is time for a new breed of business leader—the business statesman—to emerge, the foundation's Stedman argues.

The business statesman, he says, must be someone who looks beyond self and the present; who resists special political favors and refuses outright government subsidies, acknowledging their long-term destructiveness; who has the courage to stand up and be counted when it is not popular to do so.

Stedman gives a somber warning: If business people and the clergy do not reach an understanding of each other's environments, "then there will eventually be no liberty in religion or in the marketplace." □

—Mary-Margaret Wantuck

To order reprints of this article, see page 73.

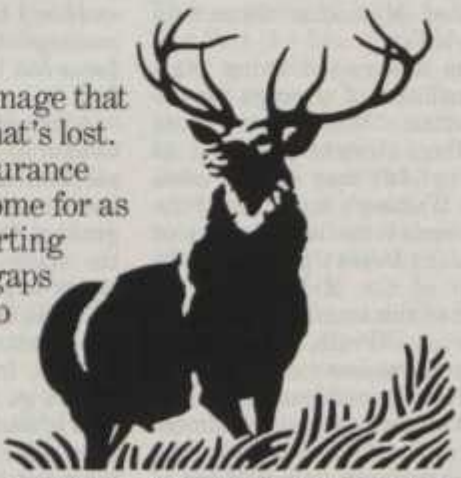
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Keeping Good People

Some firms don't just call employes their most important assets, they treat them that way.

By Henry Eason

ODETICS, INC., is too loose, by the lights of traditional corporate theory, to be successful. The 500 employes call Board Chairman Joel Slutsky "Joel." Slutsky does not even have his own parking space.

And it is just too much fun to work at Odetics. Slutsky has been known to hire mariachi bands to parade through his plant, followed by girls from Baskin-Robbins, handing out free ice cream. On Friday afternoons the employes sometimes send out for beer. They once also sent out for a belly dancer. Odetics has a fun committee and its own repertory theater company.

So how has this happy group of people managed to corner the market on the spaceborne tape recorders used by practically every free world nation exploring the skies? How have Odetics employes found time to invent a robot—they call it a "functionoid"—that can lift a small pickup truck and walk with it?

And, importantly, how has Anaheim-based Odetics managed to keep this productive family together in the job-hopping climate of California high tech?

Odetics is at the forefront of one of the most exciting and promising movements in business today. Along with a number of other progressive companies, Odetics is pioneering in an area essential to the country's increasingly brain-powered economy: getting the most from employes.

Personnel retention at these firms is far above average. The base-line benefits are cost savings on retraining in a rapid-turnover job market and cutting down the equally expensive knowledge drain. Beyond that, these companies are reaping rewards from teams of company-committed, energized individuals at a time when lethargy is sapping productivity at firms where traditional authoritarianism is the rule.

"If you subscribe to the premise that your most important assets are your customers and your people," says Slutsky, "then you're going to spend a lot of time with both. As soon as it's not a we-they environment, you've established a trust between you and your employes that's more important than anything."

He says that Odetics "tried to apply the same creativity to people that we did to engineering." In effect, it gambled that personal freedom, if cultivated in its employes, would pay off in creativity and hard work.

Today—when a machine frequently performs tasks that once would have required the labor of hundreds of workers—managers and those with special skills outnumber unskilled employes 5 to 1, according to pollster Daniel Yankelovich.

The education level of the work force is rising and with it the employe's spirit of individualism. Companies are realizing that if they do not harness this spirit, they lose valued employes to competitors.

"The problem of developing a large



PHOTO: DELTA AIRLINES

Delta Airlines' 37,000 employes, who consider themselves part of a large family, expressed their gratitude for the company's enlightened personnel policies by buying it a 767 jet.

PHOTO: T. MICHAEL KEZA



Delta often puts employes' ideas to work. John Nelson (left) conceived this device for lifting luggage.

enough number of high tech minds to run a high tech world will prove to be no problem at all, once we adjust our thinking," says futurist author Isaac Asimov.

Such adjustment is a challenge for American business, particularly for large companies whose maze-like bureaucracies often intimidate employes and thwart awakened entrepreneurial spirit. The problem for them is how to make their organizations loose enough to foster the ideas and follow-through of individuals that, collectively, can keep the company forging ahead into new product lines and services.

At 3M, management has found a way to do it. Despite the size of its 87,000-plus payroll, the company effectively pursues programs designed to keep its employes individually innovative. The result: over 45,000 different products, from Scotch tape and videocassettes to orthopedic casts, developed and produced by some of the brightest minds in chemistry.



3M's Spencer Silver (left) and Arthur Fry, developers of the "Post-It" adhesive note pad, are examples of employes whose freedom to work on individual projects has paid off big.

FOR OVER SEVEN YEARS the company had more than 100 people working with fluorochemicals, a large project even for 3M. Not a penny had been earned as a result of their efforts. Top management, concerned, considered canceling the endeavor. The vice president for research called in half the research team individually and asked bluntly if the project should continue. Forty-eight said yes. The project continued.

Not long after, a laboratory technician spilled a sample of fluorochemicals on her tennis shoes. It would not wash off—but the affected portions of her shoes stayed much cleaner than the rest. From that accident came "Scotchgard" fabric protection and eventually a whole line of useful products.

"If we provide people with challenges on the job, the company will be compensated," says Bruce Hoeffel, director of staffing and employe resources. Hoeffel says 3M loses few good employes. "People have the feeling of movement here," he says. "We give them the freedom to explore and innovate.

"We promote from within. Only very, very rarely do we look outside for a manager," Hoeffel continues. "We work hard to identify talent throughout the company."

The company instituted a "dual ladder" of advancement for employes with special skills—in sales or science, for example—whose next career step would normally be management. Many wish to move into administrative posts, but some do not. Those who do not but are judged due for an advancement can elect to continue selling or working in the lab with heightened status and more salary.

"An important thing at 3M is sensitivity," says Hoeffel. To find out if it is responding appropriately to its work force's needs, the company conducts a triennial employe survey of its management style.

Lester Krough, head of 3M's research and development programs, says the entrepreneurial spirit "is the gospel at our company." He adds:

"We know that people are at their most creative when they are working on projects close to their hearts. So we encourage innovation by guaranteeing people time for their pet ideas."

Human resource researchers say Odetics and 3M are putting into effect lessons social scientists are learning from work force attitudes and behavior. Job security is the No. 1 desire of workers, followed by good salary, challenging and interesting work, and opportunity for advancement, according to a national survey conducted by personnel managers William Rothenback and Alan Rash.

Good people won't stay long in a bad situation, says Ronald Pilenzo, president of the American Society for Personnel Administration. More than ever before, he says, employes are willing to change jobs when their companies don't meet their needs. Says Pilenzo: "There are many more opportunities than there were 25 years ago. People are more mobile, a different breed."

POINTING OUT THAT employe turnover costs companies a lot of money, Pilenzo, who has run personnel programs for multibillion-dollar firms, advises paying closer attention to the attitudes of young people coming into the work force.

"They have different value systems," he says. "Time off from work is more valuable than pension plans. They want freedom—to be heard, to participate. They don't see their jobs as an end to all means. Managers need to be more flexible in handling people and to look at them as individuals."

These attitudes form the beginning of what a recent article by Yankelovich and Villanova University philosophy professor John Immerwahr calls "the emergence of expressivism." By the early 21st century, they say, it will permeate the work force.

In the future, they say, employes "will see themselves as primarily working to fulfill their expressive needs, rather than their needs for survival or for material success." Increasingly, employers must "find ways of struc-



Humanized work environment and high tech blend at Odetics, which makes robots and (right) tape recorders for use in outer space.

turing work so that it appeals to the needs of expressivist jobholders for autonomy, creativity, community and entrepreneurship. . . . Managers will need to re-evaluate the rigid hierarchies and sharp status differences that characterized the low-discretion [traditional] workplace."

Headhunters—agents companies hire to find key middle managers and top executives—already realize this. They search corporate situations that undermotivate promising talent and help snap up executives for firms that usually offer not necessarily much bigger salaries, but fresh challenges that give a greater personal glow.

John Mirtz is an executive recruiter and management consultant with Byrnes, Elsom, Mirtz, Morice, Inc., in New York. Less politely, he is a top headhunter. As such, he has helped some of the country's senior executives make a transition from one company to another. He knows what makes some stay and some leave.

"If an employe feels his company won't move him up, he'll leave," says Mirtz. "What do you do to keep a good employe? The question has been asked down the ages. You offer enough money, good training, growth opportunities. Many companies don't do that, unfortunately.

"Companies have their own culture, style. That's an important factor in finding and keeping an individual who will fit in. Many times companies don't understand their own culture. If they did, there might not be as many executive recruiters today."

High performers, Mirtz says, "are like gifted children," and companies often do not know how to handle them. On the whole, he says, companies tend to lose more people than they should.

DELTA AIRLINES does not lose people—at least not more than 3 percent annually, a remarkably low rate by most standards. Many companies call themselves families and try to get their employes to believe it. Delta *is* a family, one with 37,000 members.

Just as you do not kick someone out of your family, Delta does not lay off its employes. Even in the toughest budget years, it reassigns people. Sometimes they are transferred to jobs at less pay, but with the promise of returning to their old functions as soon as business picks up.

When jobs come open—anywhere in the system worldwide—those jobs are advertised on the inside. If a flight attendant traveling the world wants to settle in Atlanta and fill an opening in corporate headquarters' public relations department as a writer, that flight attendant bids against other Delta employes. If some training is required and the flight attendant is selected, he or she gets it.

When the company needs a helping hand from its employes, they give it voluntarily.

In 1983, after one of Delta's most austere years, Delta's employes bought their company a spanking new Boeing 767. They tied a big red bow around its fuselage and rolled it out of a hangar at Atlanta International Airport.

"We have loyalty," Delta President Ron Allen says modestly. Delta fosters what he calls "an environment of approval." The company works to ensure that "people feel good about themselves."

He says Delta does not offer unique inducements to its people but instead practices the family concept fully. Employes at all levels meet frequently to discuss ways of improving service, maintenance and operations. New ideas are considered on their merits and quickly incorporated if sound.

"We found that open communication is extremely important in dealing with problems," says Allen. "We work hard on our communication channels."

Even top executives start at the bottom and work their way through the ranks, learning vertically and horizontally as they rise.

There is never fear at Delta that an important sales manager will be brought in from outside. Everyone knows that the job will go to the most qualified Delta applicant for the post.

A recent book brings together many themes that are important to keeping good people on the payroll. *The 100 Best Companies To Work For in America*, by Robert Levering, Milton Moskowitz and Michael Katz, reports on why the firms it lists have good workplace climates and low turnover. It cites characteristics, beyond good pay and benefits, that are common in these companies. The characteristics:

- Encourage open communication, flowing up and down.
- Promote from within.
- Stress quality, fostering a sense of employe pride in output.
- Allow employes to share in the profits.
- Reduce distinctions between ranks.
- Create as pleasant a workplace environment as possible.
- Encourage employes to be active in community service.
- Help employes save by matching funds they save.
- Make people feel part of a team.

Productivity, the authors say, can be enhanced in various ways, but there is nothing to match giving employes a working life that is "worth looking forward to every working day." □

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Drop by Drop, His Firm Won Worldwide Success

How Loctite became a leader in liquid adhesives.

By Mary-Margaret Wantuck

LAURA KRIEBLE describes in this way her husband's and son's teamwork in making Loctite Corporation a giant in the field of liquid sealants and adhesives: "Vernon sowed the acorn, and Bob made it grow into a huge oak tree."

Son Robert phrases it a bit differently: "Dad was the outside man—the salesman. I was the inside man—the business manager."

Loctite's sales have increased some 6,000 times—to well over $200 million—since Robert Krieble joined the company 28 years ago. Many Loctite products—which are used by the drop, not the barrel—have wide application in industry, in many cases offering manufacturers new ways to simplify assembly and improve reliability. Others—notably Super Glue—are widely used by individual consumers.

More than 400 machinery, manufacturing and repair chemicals are sold under the Loctite brand name, offering chemical solutions to mechanical problems.

Loctite sealants and adhesives can be found in a host of products, from dishwashers, tractors and golf club heads to speaker assemblies, underground utility junction boxes and automotive vacuum harnesses.

The Loctite story began in 1953 when Vernon Krieble, then head of the chemistry department at Trinity College in Hartford, Conn., founded the American Sealants Company (the name was changed to Loctite 10 years later). He had discovered the chemical secret of anaerobic resins—resins that remain indefinitely liquid until deprived of air.

Without air, the resins quickly harden and form a durable bond between any two assembled surfaces that can otherwise have microscopic air spaces between them. Such spaces are breeding grounds for leakage, corrosion and vibration loosening. Unlike conventional adhesives and sealants, Loctite's do not have to be mixed and heated in order to cure into a permanent plastic.

Test marketing on the first Loctite product began in 1955, coinciding with the elder Krieble's retirement from Trinity College. He was 70.

The following year, he amassed $100,000 in venture capital from 73 friends and acquaintances, issuing 10-year convertible debentures with 5 percent interest. (The Krieble family had already invested $15,000.) Most of the debentures were converted into stock. In 1980, that original $100,000 had a book value of $30 million and a market value of $75 million.

Robert Krieble joined the company in 1956 at his father's invitation. A graduate of Haverford College and holder of a doctorate in chemistry from the John Hopkins School of Higher Studies, he was 40 and a 13-year veteran of General Electric. He was in charge of spawning chemical businesses for GE. The work, in Pittsfield, Mass., involved process development, prototype manufacturing, marketing and test selling.

"When we got sales up to $1 million or so, when the ink was beginning to turn a little black on the bottom line, we would spin off these businesses to one of the appropriate operating GE companies," he recalls.

He was making good money—$35,000 a year

PHOTOS: JACK SPRATT—PICTURE GROUP



Loctite chief Robert Krieble stands in front of equipment used to make liquid resins.

plus stock options—and the future looked rosy. To sacrifice all this for a company whose sales volume was $300 a month and whose customers numbered six seemed ludicrous.

But, he says, "it would have been very difficult to turn Dad down, since making businesses out of laboratory ideas was my profession at the time. So with butterflies in my stomach and the support of my family [wife Nancy, and a son and daughter], I joined up as vice president."

WAS IT DIFFICULT for a scientist to turn business administrator? "I learned the essential skills of management under the pressure of necessity," Krieble replies. "And I give a lot of credit to a course that I took when GE first decided to gamble on me as a manager. Then, too, I ran a laboratory for a while at GE's River Works Plant in Lynn, Mass., where I oversaw 400 people and handled a $4 million budget. All in all, a fair amount of supervisory and fiscal responsibility."

Working under his father, he says, "I did practically every job in the company. All we had were five employes, so I was tapped for such chores as working in shipping and taking boxes to the post office. I was the tech service engineer when there were technical problems, and I was in charge of administration."

The challenges came early on. He describes one graphically: "We were occupying a rented old mill building in Hartford. One Saturday morning, I was awakened before sunrise with the news that our building was on fire. I went charging down to see the firemen dousing the last flames, which had left a huge hole burned right through the middle of the building floor.

"I rushed into the basement, where our inventory was stored around the outer wall. Fortunately, the bottles of sealant were intact, the contents still liquid. Our bookkeeper found the pending invoices and hung them up on a makeshift clothesline to dry.

"When Monday morning came," he continues, "our customers were served just as always, unaware that we were operating with desks around a hole in the floor and a factory that was totally kaput. But we had a couple months' worth of inventory and worked 18-hour days for the next few weeks to get production back on line."

If production had not resumed quickly, he says, "we would have been out for keeps." The company had been founded on a technical discovery for which no apparent need existed. Customers had to be made to see that a liquid resin was better than any mechanical alternative. This could only be achieved through on-the-job engineering and elimination of problems that customers had accepted as unsolvable. Even a temporary halt in shipments—there was no other source of supply—could have resulted in clients' backsliding to mechanical means.

ONE YEAR AFTER Robert Krieble joined the company, sales reached $100,000. Four years later, they were $1 million. Krieble credits the company's philosophy of "strategy on the one hand and people on the other" with being a major force in its mushrooming success. Strategy entailed having salesmen with engineering backgrounds who could design product applications with the close backup of the company's laboratory.

Strategy also meant pointing to an extremely favorable cost-benefit ratio; though the resins were expensive, their use resulted in production savings many times the cost. And it meant a massive ongoing publicity campaign for the company's products.

Last, but perhaps most important, was developing a "missionary zeal" among employes so that they worked for "self-fulfillment quite as much as for financial rewards," Krieble notes.

A code of employe-manager behavior is encapsulated in the company's "bible," a single-page statement called "The Loctite Way." It says productive employes are those who are praised for good work, whose opinions are considered, whose involvement is seen as vital to the company's operation, who are free to develop.

The statement tells managers they can function best by providing a sense of direction, by guiding employes' development and by offering an atmosphere that encourages open and constructive confrontation.

In addition, Krieble says, "We have a horizontal hierarchy as well as a vertical one. We allow people who have *enormous* talents in a particular job to acquire greater and greater skills in that job. Likewise, when we can, we enable those who have what it takes to manage a group of employes so that they work harmoniously and happily."

Vernon Krieble died in 1964, and his son succeeded him as president and chairman. "My father was a very strong person in my life—a very warm human being," he says.

Loctite today has close to 2,500 employes, has made several domestic acquisitions and has carved out a highly visible image abroad, with plants, offices and other installations in almost 20 countries.

Its U.S. industrial group, based in Newington, Conn., where the company is now headquartered, includes the division that makes applicators for Loctite products. "One of our unique contributions is giving our customers the entire process: the product in addition to the machine or tool to use it," Krieble notes. An example is an applicator system that Loctite designed and built to apply sealant to the hubs of rear axles



Loctite makes both product and applicator. Behind President Ken Butterworth and Krieble is an automated system that applies adhesives to the edges of electrical transformer laminations to prevent them from vibrating.



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at the Buick division of General Motors.

Then there is casting impregnation. "That is quite a business now, in which we are leaders in the United States," Krieble says. "We have developed resins for sealing porosity in die casting and powdered metal parts." Loctite also designed the hardware—vacuum impregnation equipment—for this technology, and manufactures it.

Cleveland is home base for the automotive and consumer group. "This consists of a line of household chemicals that you would find in Sears or K mart or in hardware stores—the type of chemical tools for the do-it-yourselfer," Krieble explains. "Another division there makes automotive chemicals—engine sealants—for the professional garage mechanic under the Permatex brand name."

"The competitive sparkle has an allure that transcends science."

He continues, engrossed in his subject matter:

"Our automotive after-market business started with the creation of a cement for holding gaskets on the flange while the engine was assembled together with the transmission and gear box. Our consumer business started its life with the development of plastic materials to fill in dents from fender-bender incidents. This, in turn, developed into a wide range of household cements and adhesives. The most exciting thing that happened in this area was the introduction of an exotic industrial adhesive that we've sold ever since 1968 to the consumer as Super Glue."

Worldwide, Super Glue leads the pack. In the United States, it is outranked by Krazy Glue, a Japanese product.

Krieble is proud of Loctite's international interests. He points with particular pride to Japan, where Loctite has established a wholly owned company that makes industrial machinery adhesives. Run by Japanese, it is growing at the rate of 50 percent a year in the face of Japanese competition.

"Our strategy is to look like a Japanese company in Japan, like a German company in Germany," Krieble explains. "We've even gone so far in Japan as to set up a board of directors composed of eminent Japanese businessmen. I am pleased to see them going to meetings. We have very few Americans in our overseas operations." He is a strong believer in the motto: "When in Rome, do as the Romans do."

He is also a forceful advocate of the multinational corporation, which he sees as much maligned. "The multinational firm," he says, "is the successful promoter of mutual understanding and cooperation among people of many different countries, cultures, races, religions and economic views—all brought together by the common interest of a profit goal."

A case study: "This past March, our top 40 overseas people met with our headquarters management for a conference. There were Japanese, Chinese, Germans, Italians, Spaniards, Costa Ricans, Mexicans—all cherishing each other's company because they have learned to understand and appreciate the diversity in this world of ours."

Now 68, Krieble expects to step down eventually as chief executive officer while remaining chairman—keeping involved in strategy. Most daily operations are already in the hands of the company's president and chief operating officer, Ken Butterworth—not a relative. Krieble's son, Frederick, a former treasurer of the corporation and a current member of its board of directors, is now manager of a private investment firm.

ROBERT KRIEBLE IS active outside Loctite as well as in it. His hobbies include reading, mostly on public issues, and flying and scuba diving.

He recently completed five years as a director of the U.S. Chamber of Commerce, and he is presently a board member of the Heritage Foundation, the American Council for Capital Formation, the Hoover Institution on War, Revolution and Peace, the Council for National Policy and other conservative organizations.

Twenty-eight years have elapsed since he left GE. Does he ever regret his departure from that company or from research?

"No," he answers emphatically. "The competitive sparkle has an allure that transcends science. I was a dedicated scientist from the age of 12. I had a lab, and most of what I read was about science. At college, I took very few courses outside of science and math. And yet, when I got into business, I found that marketing offered just as much of an intellectual challenge as research, the same opportunity for creativity and experimentation.

"You can make things happen in the real world much more quickly in marketing than in scientific research." □

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THE HELLER/ROPER SMALL BUSINESS BAROMETER

Things Are Looking Good, but Not Up

CEOs' expectations for their firms have leveled off on high ground.

This is a report on the latest Heller/Roper Small Business Barometer, a survey of chief executive officers of more than 1,000 firms that have between 40 and 500 employes. The survey, which focuses on the second four months of 1984, was conducted by the Roper Organization in May for the Walter E. Heller International Corporation's Small Business Institute.

AFTER more than a year of rising optimism, the expectations of small business chief executive officers have leveled off. The outlook is still rosy, but there are a few hints of gray around the edges.

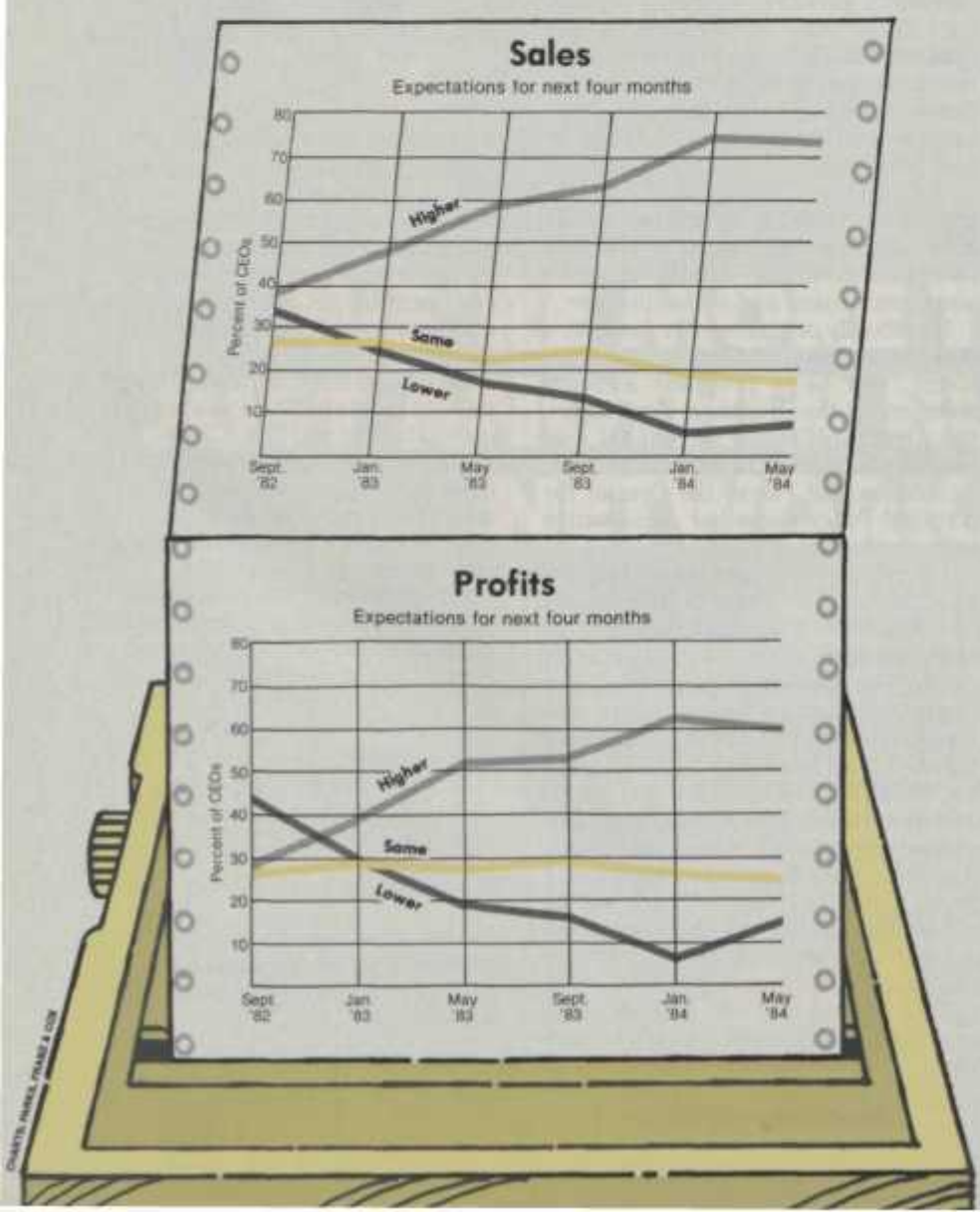
Predictions of increased sales remain at about the lofty level shown in the last Heller/Roper survey, conducted in January and reported in the March issue of NATION'S BUSINESS. And a high percentage of CEOs continue to forecast improved profits, but there has been an increase in the percentage expecting profit drops.

The survey conducted in May shows virtually no change since January in the percentage of CEOs planning to increase borrowing, but the waiting time to collect receivables has lengthened somewhat. Concern about excessive inventories is on the rise, but plans to add to payrolls remain at the high level registered at the beginning of the year.

In addition to outlining near-term prospects for their companies, CEOs taking part in the survey assessed issues, centering on the auto industry, with long-term impact on the economy.

They were asked whether they favor domestic content legislation designed to protect the auto industry against competition from imports. They were also asked to cite factors that they think have put this key industry in a weak position vis-à-vis foreign competitors.

The results (see box) are a strong vote against protectionism.



Sales

Asked to compare the level of sales they expect for their firms in the year's second four months with those in the same period last year, 73 percent of CEOs surveyed predict increases, 18 percent forecast no change, and 8 percent predict decreases.

In January the figures were 74 percent, 19 percent and 6 percent—the most optimistic four-month sales forecast since the Heller/Roper surveys began in January, 1980.

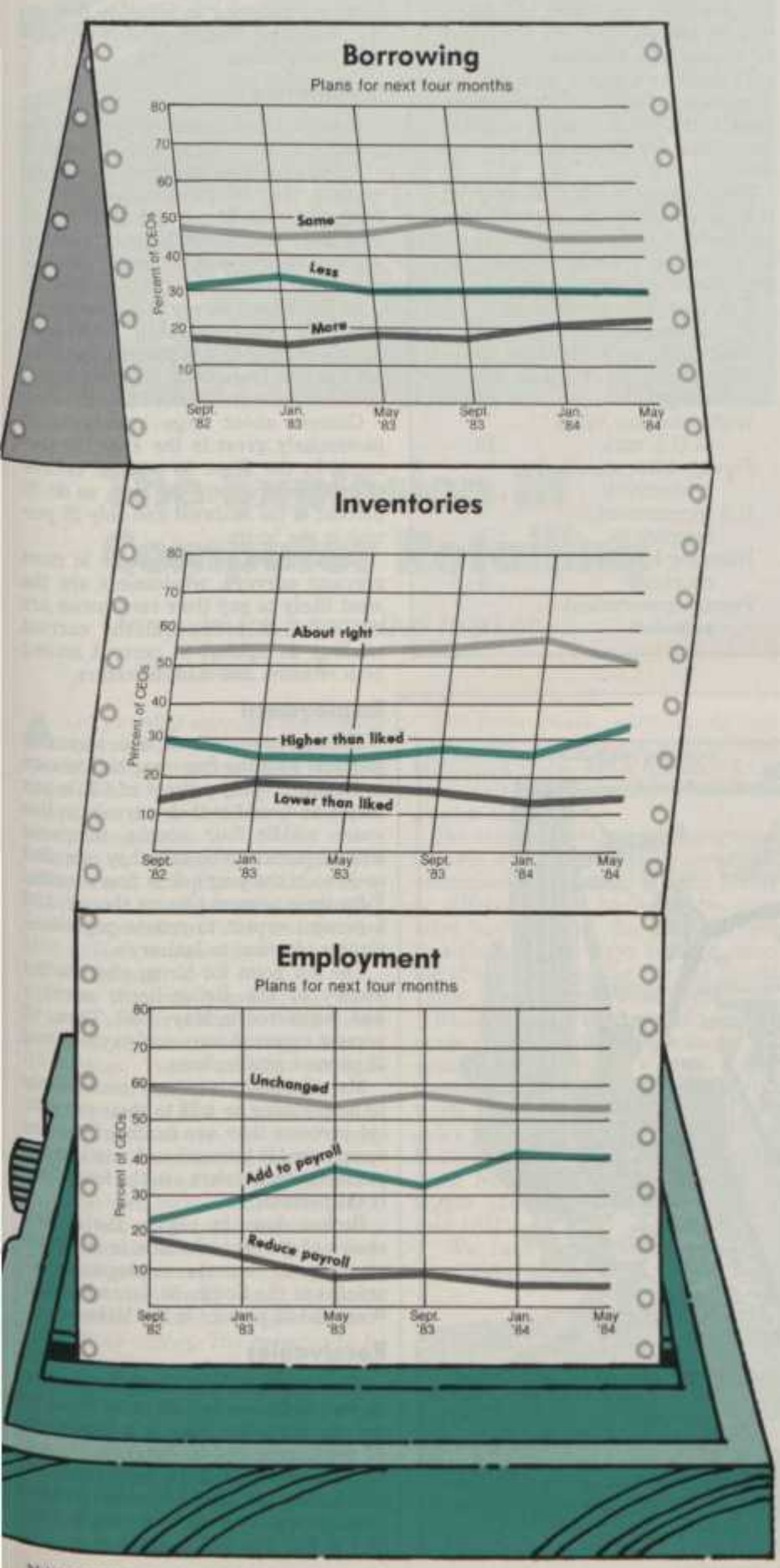
Expectations of increased sales are widespread in all regions of the country—they are held by 75 percent of CEOs in the South, 74 percent in the East, 71 percent in the West and 70 percent in the Midwest. (The survey does not cover Alaska and Hawaii.)

Similarly, 77 percent of wholesalers, 74 percent of retailers, 74 percent of manufacturers and 70 percent of service firms' CEOs report they are looking forward to higher sales than in the same four-month period of 1983.

Seventy-four percent of CEOs whose firms have between 100 and 500 employes expect their sales to be higher; so do 72 percent of firms with 40 through 99 employes.

Profits

Although expectations of bigger profits remain high, there has been a plateauing of optimism since January. Sixty percent of CEOs surveyed in May say they are looking forward to profits that are better than those they had in



the middle four months of 1983; 25 percent see no change, and 13 percent predict lower profits.

In January the comparable figures were 62 percent, 27 percent and 8 percent. But it should be kept in mind that in January, CEOs were comparing their projections for the beginning of this year with a bleak period at the same time a year earlier.

There is somewhat less optimism about profits among Midwestern CEOs than among those in other regions. Fifty-six percent of heads of small businesses in the Midwest predict their profits will be higher than in the same period last year. Sixty-two percent do so in the West and 60 percent in both the East and the South.

Among both manufacturers and retailers, 62 percent think their profits will increase. Sixty percent of wholesalers do so, and 55 percent of heads of service firms.

CEOs of firms with 100 to 500 employes are somewhat more optimistic about profits than are those of firms with less than 100—the percentages predicting improved profits are 62 and 58, respectively.

Hopes for higher profits as a percentage of sales have also dimmed a bit since January. There has been a 3-point decline—to 46 percent—in the proportion of CEOs forecasting increases. Similarly, 16 percent now say profits as a percentage of sales will be lower, compared with 10 percent in January, and there has been a 3-point decline—to 33 percent—in those anticipating no change.

In May, 1983, 41 percent predicted increases, 20 percent decreases and 35 percent no change. In January, 1983, the percentages were 32, 29 and 35.

Present expectations on profits as a percentage of sales show no significant differences by region or category of business.

Borrowing

Projected borrowing levels show little change since January. Twenty-two percent of CEOs report they expect their borrowing in the year's middle four months will be greater than it was in the same period of 1983. Forty-five percent say borrowing levels will remain the same, and 30 percent expect decreases.

Western CEOs are the most likely—27 percent—to be planning increased borrowing. This compares with 22 percent in the Midwest, 21 percent in the East and 19 percent in the South. Among retailers, 27 percent expect to increase borrowing, compared with 24 percent of manufacturers and 17 per-

Discontent With Domestic Content

Should Congress pass domestic content legislation, under which specified amounts of American parts and labor would have to be employed in the manufacture of cars sold in this country?

Organized labor argues the action is needed to protect jobs.

By an overwhelming margin of 77 percent to 15 percent, chief executive officers taking part in the latest Heller/Roper survey oppose passage, agreeing with those who argue that such legislation could start trade wars with countries that buy U.S. exports—thereby threatening employment and other aspects of the American economy—and that it would result in higher auto prices.

Most CEOs think that if domestic content legislation were enacted for the auto industry, similar restrictions would be imposed in other industries, such as electronics, textiles and machine tools. And, by and large, CEOs deplore the idea. Only 14 percent favor such restrictions.

In line with this sentiment against protectionism are CEOs' responses to a request that they cite the primary causes of weakness in the U.S. auto industry's competitive position in relation to foreign auto producers. Most of the finger pointing is at factors within the United States, rather than without.

Three percent of the CEOs say the U.S. auto industry is not weak competitively. Among those who say it is, percentages citing various factors—and the factors—are:

U.S. labor union practices/ demands	26%
Poor quality/poor product	25
Poor management of U.S. companies	10
High price/low value of U.S. cars	10
Foreign labor standards/ productivity	7
U.S. government regulations	1
Dumping by other countries	1
Foreign government subsidies	1



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cent of heads of both wholesale and service firms.

Also, 24 percent of CEOs whose firms have over $5 million in annual sales are planning to increase borrowing, compared with 18 percent of firms with lower sales.

Inventories

Concern about inventory levels is the greatest in two years—with 32 percent of CEOs reporting inventories are higher than they would like them to be, compared with 26 percent who considered them too high in January. However, this is still below the 36 percent registered in January, 1982.

In the latest survey, 51 percent express the belief that their inventories are about right and 14 percent that they are too low. In January the comparable percentages were 58 and 13.

Concern about large inventories is particularly great in the East (40 percent). In the West 35 percent believe their inventories are too high, as do 32 percent in the Midwest and only 25 percent in the South.

Continuing a pattern shown in most previous surveys, wholesalers are the most likely to say their inventories are too high—42 percent in the current reading, as against 31 percent among both retailers and manufacturers.

Employment

Hiring expectations are virtually identical with the four-year high shown in January. Forty percent of CEOs say they plan to add to their payrolls in this year's middle four months, compared with 41 percent who said they intended to do so in the year's first four months. Fifty-three percent plan no change, and 6 percent expect to reduce payrolls—figures identical to January's.

The low point for hiring plans in the history of the Heller/Roper surveys was registered in May, 1980. Then, 22 percent expected increased payrolls and 23 percent smaller ones.

Manufacturers are now more likely to be planning to add to their payrolls (44 percent) than are heads of service companies (40 percent) and retailers (37 percent); wholesalers are the least likely (31 percent).

Broken down by region, the survey shows 45 percent of CEOs in the East planning to increase employment, 41 percent in the South, 39 percent in the West and 32 percent in the Midwest.

Receivables

The length of time small firms have to wait before collecting what customers owe them has risen to a median of 37 days from 36.4 in January. During 1983, it was 38.1 days in September, 35.7 in May and 38.2 in January. During 1982, it was 38.8 days in September, 38.6 in May and 39.3 in January. □

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PHOTO: KEVIN HORAN

An Entré franchise opens in Schaumberg, Ill., as computer stores continue to proliferate.

The Explosion In Computer Retailing

Many vie for a lucrative market.

By Mike Lewis

A LOT OF dollar signs are showing up on cashiers' video display terminals at computer stores these days. A major reason is the rising demand for computers from small and medium-sized businesses.

Computer retailers expect to sell $4.5 billion worth of equipment this year—$1 billion of it to businesses employing fewer than 100 workers and another $500 million to businesses with 100 to 1,000 employes.

Those figures come from Alice Brown, vice president of the retail group at Future Computing, Inc., a Richardson, Tex., firm that analyzes the personal computer industry.

This market has attracted Sears, Roebuck & Company, the world's largest retailer. Sears opened five computer stores in the fall of 1981 and expects to have 100 open by the end of this year.

Jim Podany, director for marketing communications with the Sears merchandise group, says the Chicago company has deliberately made its 3,000-square-foot Sears Business Centers stand-alone stores. The reasons: to locate them in areas with large numbers of prospering small businesses and to create in them "a business-professional environment" distinct from the atmosphere of a Sears department store.

"Our business centers have done extremely well," Podany says. "In fact, they've exceeded our projections in both revenues and income."

But Radio Shack, whose more than 1,100 computer centers and general electronics stores sell a full line of the company's Tandy computers, is still the giant in the field.

The company's stores are sometimes thought of as haunts of do-it-yourself electronics enthusiasts, but the reality is different. "We have always done more business with the business user than the hobbyist," says Ed Juge, director of market planning for the parent Tandy Corporation of Fort Worth, Tex.

Radio Shack's business customers range from small stores to some of the nation's largest firms. "We have a very strong commitment to the corporate world," says Juge, pointing to 1982 sales of computer systems in the $5,000-to-$15,000 range—often used by small businesses and departments in bigger companies—that were larger than IBM's.

"We have some people who specifically call on some large-account customers," he says. As a result, Radio Shack, with projected 1984 computer sales of $970 million, has volume sales arrangements with more than 600 of the country's 1,000 biggest companies.

With about 650 stores, including 125 abroad, ComputerLand Corporation of Hayward, Calif., is the industry's biggest franchiser. ComputerLand charges a $75,000 franchise fee plus royalty and advertising fees totaling 9 percent of gross sales.

An owner usually can pay off his initial outlay in two years or less. The outlay, including franchise fee, rent, furnishings, inventory and advertising, ranges from $150,000 in a small market to $750,000 for a central location in a big city.

Because sales volume for a typical store has risen in each of the few years since computer retailing began, and the industry-wide profit margin is about 10 percent, there has been an explosion in the number of stores. From 100 computer specialty stores in the United States in 1976, Future Computing predicts, the number will rise to 4,000 at the end of this year and to 6,900 by 1988.

Industry analysts say the stores' geographic distribution shows a clear sun belt bias, with California having more than twice as many stores as New York. Texas also has more stores than New York, and Florida has more than Illinois or Ohio.

A lot of people think that computer retailing, which until recently had a "techie" image, of intense computer freaks selling to fellow electronics buffs, will soon wage its own version of the hamburger wars carried on by the fast-food franchise companies. Market



PHOTO: SOFTWARE SERVICES GROUP

Software franchisee Howard Schwartz shows a product to Jay Gaines, head of a planning firm.

share is shifting from independents to franchises and company-owned chain stores. Future Computing says the biggest category of computer specialty stores is franchises.

Computer specialty stores of all kinds now account for 38 percent of all computer sales revenue. Their share is on the rise, at the expense of other kinds of retailers and manufacturers' direct sales forces.

UNLIKE MOST franchising chains, which prefer to sign up newcomers as computer retailers, 126-store MicroAge Computer Stores, Inc., of Tempe, Ariz., is making a strong effort to recruit independents. MicroAge stresses the advantages of affiliation. It says a chain is given a "window on the future" by manufacturers' presentations of new products before they are announced, and that franchisees benefit from the size of advertising budgets and technical support staffs.

"We're really at a watershed in computer retailing," says President Jeffrey McKeever. He sees a switch from a products orientation, with sales driven by name-brand hardware, to service-based merchandising, with a store tailoring its offerings to particular customers' needs.

Four years ago, McKeever recalls, his company was organized to offer a "solutions orientation" that concentrates on multiuser systems and on integrating hardware and software for vertical markets like accounting firms. About 85 percent of MicroAge stores' sales volume comes from businesses.

Another aggressive chain is Entré Computer Centers, Inc., of Vienna, Va., which opened its first franchise in June, 1982, and now has more than 160 stores, with a new one opening every other business day.

"The company was founded on the premise that there was a need for a second generation of computer retailers," says James Edgette, Entré's executive vice president. Each store has an outside marketing group performing many functions of a consulting firm—with the obvious difference that these consultants have one retailer in mind.

That approach is important, Edgette says, because the purchase of a computer system is "not like buying a car." The manuals for software, the installation of equipment and the warranty servicing needed to avoid expensive down time—all these features are worth the full retail price that such custom service usually costs, Edgette argues.

Entré's decision to aim its marketing at small business people and professionals "has been strikingly correct," Edgette says. The company says the typical Entré store averages a $3 million pretax profit in its second year—considerably above the industry standard—and that a typical franchisee pays off a $300,000 to $400,000 investment in three years.

Like most of the chains, Entré offers its franchisees volume discounts that usually offset the royalty fee.

Businessland, Inc., of San Jose, Calif., a chain of more than 30 company-owned stores, so far located mainly in the West and Southwest but moving into the East, uses a similar marketing plan, emphasizing a consultative approach aimed at businesses.

THOUGH SOME franchise chains allow individual stores to sell machines and software they do not handle in their central purchasing systems, the number of brands widely available is severely limited. Even though there are about 200 hardware manufacturers, for instance, most retailers offer only 5 to 10 brand lines. This limitation on shelf space is one reason most analysts predict that the number of hardware manufacturers will decline sharply over the next few years. "A mating dance" will go on between manufacturers and retailers, predicts McKeever of MicroAge.

"It's a vicious market," concedes Thomas Truitt, president of DeskTop Software Corporation of Princeton, N.J. Truitt's firm, which publishes database applications, has traditionally sold its products through manufacturers or has designed custom software packages for corporate customers. Now DeskTop wants to sell through retailers, too, Truitt says, and the battle for display space is extremely competitive.

The shelf-space crunch has led some chains to sell only software. Softwaire Centre International, of Culver City, Calif., whose 53 stores include both franchises and company-owned outlets, is the biggest of these.

One Softwaire Centre franchisee, Howard Schwartz, says that not being tied to "pushing iron"—selling hardware—gives him an advantage over other retailers. Schwartz, who has a store on Long Island and plans to open 14 more there and in sections of Manhattan, has built a marketing approach around seminars on computer use in a classroom-like setting.

Whether software-only stores emerge as significant competitors for the business market remains to be seen. What seems clear is that as more retailers offer customers systems tailored to their needs, businesses contemplating computers will be able to choose among vendors who will give them custom service. □

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Small Business' Best

For Terry Fuldner, being fired was a step toward a White House ceremony.

THE MOST appealing aspect of the quarters in which William Terry Fuldner and his partner established their screen-manufacturing business 32 years ago was the rent.

"My brother-in-law owned the building, and he let us have the space pretty cheap," recalls Fuldner.

But, as most fledgling entrepreneurs learn, such arrangements are seldom problem-free. The 1,000 square feet of space was in the basement of a St. Louis laundry. "When those washing machines overflowed, the water poured down into our shop," Fuldner says.

A growing number of orders, as well as the periodic downpours, dictated a move to larger—and drier—quarters. The company's move into a 5,000-square-foot facility in the St. Louis suburbs was the first of the expansions that have made EFCO Corporation a major producer of windows for industrial, commercial and institutional buildings. Sales last year reached $23 million.

Terry Fuldner's role in guiding the company to such success (his partner left the business 20 years ago to pursue other activities) won national recognition last month when he was named the 1984 Small Business Person of the Year.

President Reagan announced the award at a ceremony in the White House East Room. The exuberant winner's response when the Chief Executive congratulated him was this: "Whooee!"

Fuldner, 56, was chosen from the ranks of 52 finalists nominated from each state, the District of Columbia and Puerto Rico/Virgin Islands. (See listing, page 56.)

The competition is conducted by the Small Business Administration. That agency's District Advisory Councils select the 52 nominees, and the national winner and two runners-up are named by the President on the recommendation of the SBA administrator.

Criteria throughout the selection process include growth in sales and number of employes, innovation, community service and a record of overcoming adversity.

Another requirement is demonstrated initiatives toward achieving one or more of the national goals of job creation, inflation reduction, employment of the handicapped, environmental improvement and energy conservation.

Terry Fuldner's own odyssey toward presidential recognition as the nation's most outstanding entrepreneur began, ironically, with his being fired. "I guess I shot my mouth off," he says of that incident.

He had taken a job selling steel windows after his 1949 graduation, with a degree in industrial engineering, from Washington University in St. Louis. The window company was a unit of a major steel corporation.

On a visit to the window sales operation, the parent company's president asked Fuldner, as a new employe, what he thought of the firm's training program. Fuldner, who felt he was poorly paid under the program, made the mistake of telling the president so—abruptly.

Fuldner left that job the next day, his most notable achievement having been his dismissal by the giant corporation's president himself.

AN INVITATION from a college classmate and fraternity brother soon returned Fuldner to the window-selling business. Only this time the windows were made of aluminum. Fuldner joined George Eberle as a manufacturer's representative in the Midwest.

Those early aluminum windows were growing in popularity because they were less expensive, maintenance-free and cheaper to install than traditional wooden-frame windows. But they had a

William Terry Fuldner's EFCO Corporation, a major maker of windows for industrial, commercial and institutional buildings, got its start with $5,000 in loans and a chance to use inexpensive quarters beneath a St. Louis laundry.



PHOTO T. MICHAEL KEZA

drawback: no screens. Spotting an unmet need in their marketplace, Fuldner and Eberle decided to go into business.

They borrowed $2,500 each and established EFCO Corporation to make window screens in the basement of the laundry. The partners drew on their engineering training and selling experience to design, manufacture and market the product. They kept their regular jobs selling windows, offering the screens as a customer option.

The partners arranged their road trips so that one was generally in St.

PHOTO: JUDITH SLOAN



President Reagan congratulates Fuldner as SBA Administrator James C. Sanders (between them) applauds. Fuldner's response: "Whooee!"

Louis overseeing the new operation with its three employes. "We put in 14-hour days," Fuldner says. "We sold, we supervised production, we made the products ourselves when we had to, and we did all the office work."

EFCO closed out its first full year of operation with a respectable $153,039 in sales but a $644 operating loss. The next year, the loss had grown to $1,000. In the third year, however, sales reached $319,107 and the company turned its first profit: $6,023. After deducting the losses, that represented a return of $4,379 for three years' work.

BUT THE HOUSING boom that followed World War II was in full swing, and so was the market for building supplies. EFCO in 1955 moved from screens into building complete aluminum windows—a major turning point.

Continuing expansion to meet increased production eventually brought the company to Monett, Mo., which was seeking new industry to replace a $2 million-a-year railroad payroll it was losing.

The town's citizens bought $60,000 in debenture bonds from the local industrial development agency to finance an 18,000-square-foot building, and EFCO moved its 25 employes there in 1958.

Sales of the residential windows expanded throughout the Midwest. "There was a great market for a good number of years," Fuldner recalls, but there was also sharply intensifying competition as aluminum windows became more popular. It was that competition that caused a major change in EFCO's output. "You needed a high-volume operation to keep up with the competition and very high investments to maintain that production and carry inventory when necessary," Fuldner recalls. With those factors in mind, the company began looking to the commercial, as opposed to the residential, market.

EFCO made its first commercial window in 1964 and by 1968 was out of the residential market entirely. It was early in that period that Fuldner's partner, Eberle, decided to return to St. Louis. Fuldner bought Eberle's share of the business for $40,000, payable over five years, and the Fuldner family today owns all the stock in the company.

Getting out of the residential markets in the mid-1960s cost the company $2 million in orders, Fuldner estimates, but "it was one of the smartest things we ever did." The company's major growth has occurred as it has shifted toward design, sale and installation of heavier, more complex windows for commercial, industrial and institutional buildings.

EFCO now has national markets and a national reputation. Fuldner speaks with pride of the time his company was asked to design, manufacture and install replacement windows in the Washington headquarters of the International Monetary Fund. The new windows not only had to be energy-efficient, they had to duplicate the elaborate design of the original windows.

The firm's windows have also been installed in Chicago's Palmer House hotel, the University of Michigan, Pennsylvania State University and other academic institutions, and in new buildings at the Bethesda Naval Medical Center near Washington.

Fuldner's ability to spot market trends was a major factor in the evolution that enabled the company to undertake such work.

He had long been interested in developing energy-efficient windows, and he had one under design when the energy crisis of the early 1970s sparked massive concern about fuel conservation.

The new EFCO window consisted basically of two layers of glass and a frame of aluminum sections separated by high-density polyurethane as a barrier to keep heat in or out, depending on the season. The design prevented moisture from developing on the inside surface of the frame or on the sheets of glass.

There was a tremendous demand for the new product, not only for original installations, but also as replacements. Tax credits for energy conservation helped spur sales. "We were standing right under the tree when the plums ripened and started to fall," says Fuldner in describing the timing of the window's introduction.

EFCO sales went from $4 million in 1974 to $6.5 million in 1978, $12 million in 1980 and $23 million last year. The original Monett work force of 25 had grown to 180 by 1980, and now stands at 410 employes in a 215,000-square-foot complex.

The company has a profit-sharing plan and an employe stock ownership plan, "and people are lining up to try to get jobs here," Fuldner says.

HE WENT THROUGH a rough period in labor relations 15 years ago, however, when he decided to fight the carpenters' union, which had organized his original plant in St. Louis and had continued to represent the workers after the move to Monett.

Conceding that he had not paid his workers adequately over several years in the 1960s, Fuldner decided to remedy the situation through an incentive payment plan. The union balked, insisting on a blanket increase.

Fuldner stood his ground on the pay issue and raised the stakes with a declaration that he would no longer accept the union's closed-shop requirement. EFCO applied to the National Labor Relations Board for a decertification election, and the workers voted by a margin of 12-1 to oust the union.

While two sons and a stepson are active in the business and could assure continuity of management, Fuldner still has goals to meet. The company is working on two major new products. One is a window designed to show so little of the frame that an installation of many of them appears, in Fuldner's words, "to be one long ribbon of glass." Another is a window designed to allow much quicker installation in what builders call a curtain wall—the outside surface of a building.

With those new offerings, Fuldner expects sales to nearly triple over the rest of this decade, reaching $60 million by 1990. After that?

"I would like to see us at $100 million before I get out of here," says the man whose major challenges once included getting out from under those overflowing washing machines. □

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An Honor Roll Of Entrepreneurs

EACH OF the people listed on this page has made "a unique contribution to the community by opening up opportunities where none had existed before," says James C. Sanders, head of the Small Business Administration.

Employers of more than 6,000 workers—in activities that range from handcrafting of furniture to computerized engineering design—they are the finalists in the 1984 Small Business Person of the Year competition.

The finalists were nominated by SBA advisory councils in each state, the District of Columbia and Puerto Rico/Virgin Islands.

Where more than one name appears below, the state award went jointly to those chosen.



PHOTO: RICHARD NORTON

Frederic D. Starrett, Jr., of Penobscot Frozen Foods, Belfast, Me., was first runner-up for Small Business Person of the Year. His firm, a producer of frozen stuffed baked potatoes, made a hit with frozen potato skins, eaten as delicacies when fried.

Alabama: George P. Kappler, Jr., president, Kappler Disposables, Inc., Guntersville.

Alaska: Roger I. Woods, president, and Vernon A. Rohde, vice president, Alaska Truss & Millwork Company, Anchorage.

Arizona: Espiridion M. Murillo, president, Mi Ranchito Mexican Food Products, Inc., Phoenix.

Arkansas: Michael E. Pierce, president, Gravis Concrete, Inc., Stuttgart.

California: James W. Okamoto, president; Donald Lee Helman, vice president; and Marilyn Hamilton, marketing director, Motion Designs, Inc., Colvis.

Colorado: Barbara Johnson, secretary-treasurer, Optikem/Optacryl, Denver.

Connecticut: Jean M. Belhumeur, Jr., president and chief executive officer, Scan Optics, Inc., East Hartford.

Delaware: Gerald Blum, president, Take-A-Break Coffee Service and Take-A-Break Vending, Wilmington.

District of Columbia: William L. Devries, president, Honor Guard Security Services.

Florida: L. David Horner III, president, Florida Food Industries, Inc., Winter Park.

Georgia: Joyce C. Eddy, founder and chairman, Habersham Plantation Corporation, Toccoa.

Hawaii: Lucille M. Moore, president, and Tom Moore, managing director, Intelect, Inc., Honolulu.

Idaho: Con Mahoney, president, Atlas Mechanical, Inc., Idaho Falls.

Illinois: David P. Ransburg, president, L.R. Nelson Corporation, Peoria.

Indiana: Dane A. Miller, president, Biomet, Inc., Warsaw.

Iowa: Frank Lawrence Granados, chief executive officer, PECO Enterprises, Davenport.

Kansas: Othal D. Vrana, president, General Communications Systems, Inc., Wichita.

Kentucky: Davis Osborne, president, Keneco Associates, Inc., Ashland.

Louisiana: Byron R. Hughey, president, Top Drawer, Inc., New Orleans.

Maine: Frederic D. Starrett, Jr., president, Penobscot Frozen Foods, Inc., Belfast. (The first runner-up.)

Maryland: James F. O'Hara, president, and James Frese, vice president, Industrial Machine, Inc., Baltimore.

Massachusetts: Peter M. Abdelmaseh, Sr., director, and Peter R. Abdelmaseh, Jr., president, Billings Auto Supply Company, Worcester.

Michigan: Charles O. Pyron, president, ADCO Products, Inc., Michigan Center.

Minnesota: Ted Carlsen, president and chief executive officer, Upper Midwest Industries, Inc., Hopkins.

Mississippi: Robert Battles, president, Components by Robert Battles, Inc., Gulfport. (The second runner-up.)

Missouri: William Terry Fuldner, president and chairman, EFCO Corporation, Monett. (The winner: See page 52.)

Montana: William P. Roscoe, Jr., president, Roscoe Steel & Culvert Company, Billings.

Nebraska: Keith H. Wycoff, board chairman, Reach Electronics, Inc., Lexington.

Nevada: Daniel M. Lannes, president, Stead Industries, Inc., and Hoyt Heater Company, Reno.

New Hampshire: Eugene V. Toomey, president, Interconnection Circuits, Inc., Nashua.

New Jersey: James R. Starita, board chairman, Star-Glo Industries, Inc., East Rutherford.

New Mexico: Ted R. Martinez, Martinez Custom Trailers, Albuquerque.

New York: Sudhakar K. Dixit, president, Newtex Industries, Inc., Victor.

North Carolina: James E. Bowden, president, Bowden Nursing Home, Inc., Wilmington.

North Dakota: Leon F. Poitra, owner, Poitra Construction Company, Belcourt.

Ohio: John H. Weaver, president, Fyrepel Products, Inc., Newark.

Oklahoma: Richard H. Clements, president, Clements Food Company, Oklahoma City.

Oregon: Thomas H. Bruggere, president, Mentor Graphics Corporation, Beaverton.

Pennsylvania: Andrew Ruszkay, president, and Miklos Draviczky, vice president, R&D Machine, Inc., Ashton.

Rhode Island: William B. Anderson, president, Matrix, Inc., East Providence.

South Carolina: William E. Masters, president, Perception, Inc., Liberty.

South Dakota: Aelred J. Kurtenbach, president, Daktronics, Inc., Brookings.

Tennessee: John M. Walsh, president, Porcelain Industries, Nashville.

Texas: James E. Paul, Jr., president and owner, El Paso Diablos Baseball Club.

Utah: Jacqueline A. Nicholes, president and general manager, Quality Press, Inc., Salt Lake City.

Vermont: Patrick W. Boylan, president, Woodlan Tool & Machine Company, Bellows Falls.

Virginia: Jerry E. Gorde, president, Virginia Textiles, Inc., Richmond.

Washington: Peter E. Cleland, president, Specialty Seafood Products, Inc., Anacortes.

West Virginia: Harry E. Dugan, president, Dugan's Enterprises, Inc., Martinsburg.

Wisconsin: Daniel A. Merkel, president, American Orthodontics Corporation, Sheboygan.

Wyoming: Jim D. Neiman, president, Neiman Sawmill, Hulett.

Puerto Rico/Virgin Islands: Keith C. O'Neale, president, O'Neale's Trucking & Trailer Transport, St. Croix. □


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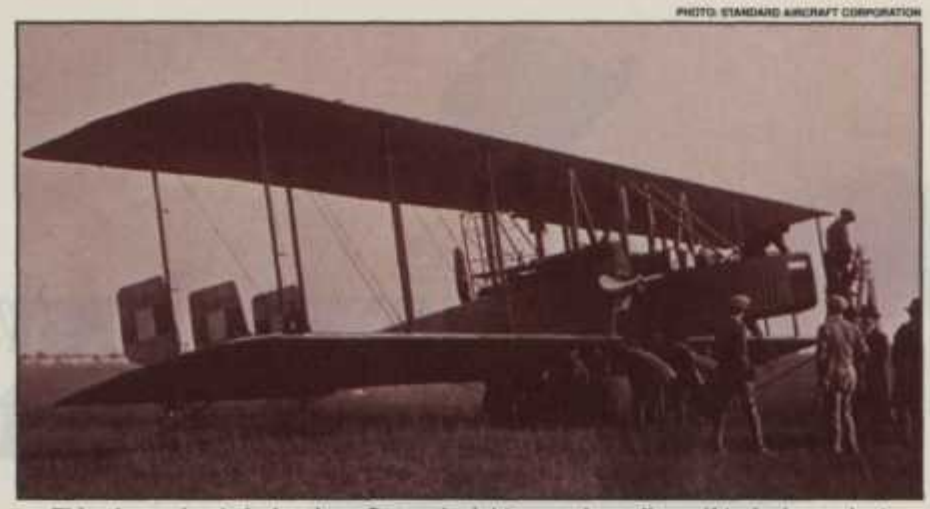
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This pioneering twin-fuselage Caproni might never have flown if today's product liability laws had applied in 1918 to the Standard Aircraft Corporation.

"Passion, Prejudice" And Product Liability

Congress has yet to take action on a jumbo jumble.

AFTER GRAND PRIX driver Mark Donohue died in a racing accident in Austria nine years ago, his estate sought—in a Rhode Island state court—to collect damages against an Akron, Ohio, tiremaker whose British subsidiary made the tires that allegedly caused the accident.

Donohue had no connection with Rhode Island, so why was the case brought to trial there? With no two states—or countries—having the same standard for determining a manufacturer's liability for defective products, the estate's lawyer may have thought he had the best chance of getting a favorable verdict in Rhode Island.

Whatever the reason, the $9.6 million judgment handed down last spring against the Goodyear Tire & Rubber Company—it says it will appeal—is an example of how a hodgepodge of state product liability laws encourages plaintiffs, and their lawyers, to hunt around for sympathetic case law, judges and juries. The verdict, says Goodyear's defense lawyer, David Carroll, "represents the influence of passion, prejudice and sympathy."

In Washington, time is running out this year on a bipartisan proposal to change this situation, which many business people say is costing manufacturers, sellers and consumers untold billions of dollars in higher prices.

The measure would:

- Pre-empt the 50 different state product liability laws and replace them with a uniform federal statute.
- Redress what many say is an imbalance that favors plaintiffs, making it harder for them to prove that a product's design is defective.
- Remove some financial incentives lawyers have in bringing product liability cases by limiting punitive damages. Lawyers' fees often take one third of the money that plaintiffs receive.

Last April, the bill cleared the Senate Commerce Committee on an 11 to 5 vote. But a short session and a crowded calendar mean that the measure's supporters must lobby hard to get Senate Majority Leader Howard Baker (R-Tenn.) to bring it up for a vote.

A key sponsor, Sen. Robert Kasten (R-Wis.), is optimistic. "Support from small business has been a big help in getting 25 cosponsors for the bill," he says. Rep. Henry Waxman (D-Calif.), chairman of a key House subcommittee, has indicated he will move forward a House version of the bill if the Senate approves its version.

MORE THAN 200 companies and associations, including the U.S. Chamber of Commerce, support the Kasten bill. They are represented by the Product Liability Alliance and by the Coalition for Uniform Product Liability Law.

Opposition comes from Ralph Nader and other consumer advocates, some state officials, organized labor and the Association of Trial Lawyers of America. Says Thomas Bendorf, the ATLA's executive director: "The only people who support the bill are manufacturers of defective products."

Lawyers' bills are an expensive part of the problem. According to one Rand study, for every dollar in damages that defendants were required to pay to plaintiffs, they had to pay another 58 cents to defense attorneys. And the plaintiffs did not do as well as might at first appear: Of every dollar they received, 41 cents went to *their* lawyers.

At issue is how to establish liability—whether the standard should be negligence, based on the notion of "reasonable prudence," or strict liability for defects. A 1982 study for the National Chamber Foundation by Columbia University says negligence—the yardstick used in the Kasten bill—should be the standard.

"The Kasten bill requires manufacturers to do what is humanly possible to do," says Victor Schwartz, counsel for the alliance. "It doesn't punish innocent people." Bendorf responds: "If you eliminate strict liability for design defects, you are going to injure more people."

But strict liability may stifle innovation. For example, if today's product liability laws had existed a half century ago, they could have hindered the development of safer aircraft.

Says David Thomas, a retired Federal Aviation Administration safety expert: "If you make something you thought was good better, that might be an admission that you didn't do it as well the first time." Today, such an admission could be an invitation to a lawsuit—something the pioneering aircraft manufacturers could ill have afforded.□

—Peter A. Holmes

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PHOTO: DAVID VALDEZ

Doing Something About The Weather

Private forecasting firms are telling their clients more than the Weather Service can.

By Julius Duscha

THE OPERATOR of an ice cream truck wrote the National Weather Service recently to complain that its temperature forecasts in his area are consistently 2 to 4 degrees wrong. Couldn't the Weather Service do better, he asked, explaining that a few degrees spell the difference between a profitable, break-even or losing day for him.

When the mercury falls below 55 degrees, the ice cream man pointed out, he loses money if he goes out seeking customers. At temperatures from 55 to 65 he breaks even, and when the thermometer moves past 65 he begins to show some profit for his day's work. Moral: More accurate forecasting would enable him to make better decisions about whether to stay home or make his vending rounds.



PHOTO: DAVID ALLEMAN—FOLIO

In recounting the story, John V. Byrne, administrator of the National Oceanic and Atmospheric Administration, which includes the Weather Service, notes that what the ice cream vendor—or his company—needs is specialized, pinpointed forecasting from a private meteorological firm. Such forecasting would supplement Weather Service predictions, which necessarily cover fairly large areas.

Temperatures can vary considerably within metropolitan areas because of changes in elevation, greenery and commercial development, he points out, adding that Weather Service temperature errors of only 2 to 4

JULIUS DUSCHA *is a freelance writer and the director of the Washington Journalism Center.*

degrees show "pretty good consistency."

Not only are government weather forecasts getting better, thanks to more sophisticated technology, but private meteorological companies are tailoring forecasts to meet specific needs of business.

There are now 97 private weather forecasting companies in the United States—doing as much as $50 million in business annually—compared with 64 in 1975 and just 12 in 1949. The firms vary in size from one-person operations specializing in detailed local-area forecasting to companies like Accu-Weather, with a staff of over 50 meteorologists and nearly 500 clients throughout the United States.

Joel N. Myers, the founder and president of Accu-Weather, started his business in 1962, while he was still a graduate student in meteorology at Pennsylvania State University.

Working with the manager of a ski area near State College, Pa., where both Penn State and Accu-Weather are located, Myers was able to help determine when to use artificial snowmaking equipment, still relatively new in the early 1960s.

"We are able to process data two to eight hours ahead of the Weather Service," says Myers, "and we are accurate in our forecasts to within 1.9 degrees, compared with Weather Service accuracy of 4.2 degrees."

(A Weather Service official, however, says that "it is not possible to clearly compare" the service's forecasts with those for smaller areas.)

Clients of Accu-Weather and other private forecasters include radio and television stations, newspapers, utilities, truckers and ocean shippers, builders, agricultural firms, ski areas and producers of motion pictures. In fact, the first private forecaster, Irving P. Krick of the California Institute of Technology, made his initial forecast in the 1930s for a movie producer who wanted to know when the weather would be best for a crowd scene.

GOVERNMENT AGENCIES also rely on private forecasters, particularly for snow predictions in determining when to close schools or call out snow plows. Snow removal crews, for example, cost the state of New Jersey $100,000 an hour; if private forecasters can pinpoint the exact times and sizes of snowfalls in various areas, the state can avoid substantial payments to crews to wait for snow.

The United States is the only country where private meteorologists play a significant role in weather forecasting. They are being encouraged by the federal government, although Reagan administration efforts to sell government weather satellites to private industry were thwarted by objections in Congress and elsewhere last year.

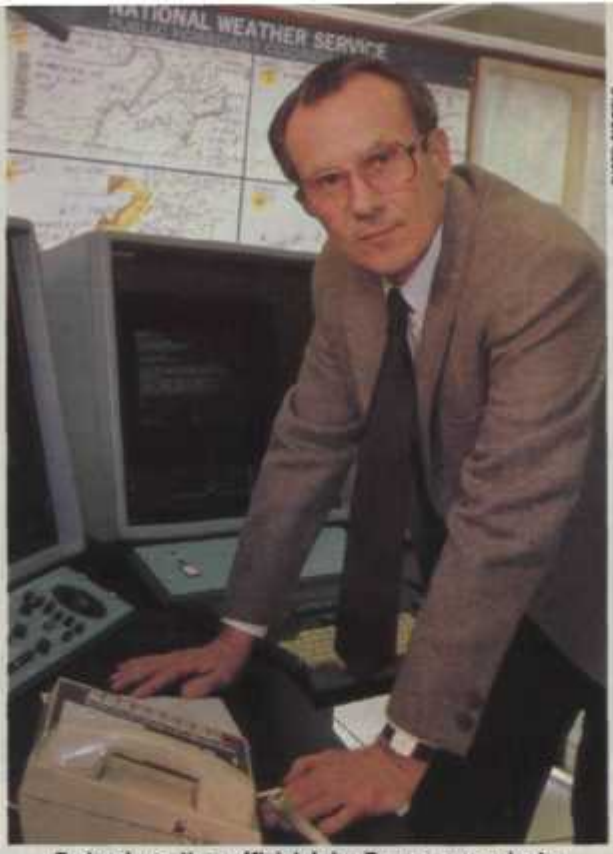


PHOTO: RAY FIELD

Federal weather official John Byrne says private forecasters play a useful role by providing specialized predictions to meet business' needs.

Business and state and local governments have increased their demand for more particularized weather forecasts because of the great improvement in the accuracy of predictions since World War II. The development of radar was followed in the 1960s by the use of weather satellites and the application of computers to forecasting. Weather can now be predicted with high accuracy for narrow areas where terrain or other factors can cause important weather variations.

A ski resort operator, for instance, wants not only to know what the general weather conditions will be in his area during the next weekend—information that the Weather Service can provide—but also to know in more detail the exact temperature and precipitation outlooks for his various slopes. Private forecasters can give the ski resort owner that kind of detail.

Similarly, private forecasters can alert trucking companies to storm-threatened routes.

Private meteorologists often work with manufacturers, wholesalers and retailers to tell them quickly of shifting weather patterns that could affect their business. Toro, which makes snow blowers, uses a private forecaster to help in its marketing, as do some makers of tire chains.

A Weather Service official says he has found that most small businesses could benefit from paying closer attention to weather trends, either by more carefully following Weather Service data or by hiring a private forecasting firm.

But he concedes that it is often hard to convince harried business people of the importance of weather to their planning. He cites as an example his own father-in-law, who operates a Tex-Mex restaurant in a Washington suburb. The business is sensitive to temperature changes, with patronage always better when the weather is cooler. So far the official has been unable to convince his father-in-law of the need to keep better track of weather trends to help him in ordering supplies and staffing.

The Weather Service itself makes available a wealth of information. At least twice a day, state-by-state and 231 localized forecasts are sent out to newspapers, radio and television stations and anyone else willing to pay the cost of being hooked up to the transmission service. The Weather Service also broadcasts forecasts 24 hours a day on special radio frequencies, which many ordinary radio sets can receive.

BASIC WEATHER forecasts that cover the next 48 hours are augmented by 3-to-5-day and 6-to-10-day forecasts. At the beginning and middle of each month, 30-day national forecasts are also issued. And seasonal forecasts for the country are put out four times a year.

But the longer the range of the prediction, the less accurate it is likely to be. While 48-hour and 3-to-5-day forecasts are 85 percent accurate and 6-to-10-day forecasts 75 percent so, monthly and seasonal forecasts are only about 60 to 65 percent accurate.

How much more accuracy can be expected from weather predictions in these days of improved radar and satellites and more sophisticated computers? The Weather Service sees further improvement of short-range forecasts—those that look from 48 hours to 10 days ahead—but improved monthly and seasonal forecasts still seem to be a long way off.

Nevertheless, the Weather Service has a research program under way to try to develop better long-range prediction techniques. The trouble with the weather is that it is such a mighty force that not even all the radars, satellites and computers can predict it as accurately as everyone would like. □



PHOTO: WAYNE SORCE

The Quiet Success Of Hispanic Businesses

A new study calls their growth America's "best-kept secret."

By Julian Morrison

FRANK SEPULVEDA was young and ambitious but poor in 1956 when $50,000 dropped on him out of the blue.

In his work for a San Antonio wholesale produce firm, Sepulveda talked almost daily with a potato supplier in California. The man knew Sepulveda was restive because he had plans for expansion that his boss wouldn't approve.

One day, after Sepulveda had expounded on his latest frustration, the man asked why he did not go into business for himself.

"I don't have that kind of money," Sepulveda replied.

"I'll lend you $50,000," the Californian said. "If you make it, pay me back. If you don't, don't worry about it."

"But why would you do that?" Sepulveda, a Mexican immigrant's son, was incredulous.

The man, whose background was not Hispanic, said, "My father was a banker. He told me that whenever I found a Mexican who needed help, give it to him. 'They're sincere, they're honest, they'll work hard, and they'll never let you down.' "

Three days later, an envelope arrived. Inside was a cashier's check for $50,000. No contract. No agreement. Just the check. Sepulveda remembers almost falling over in shock. Shortly afterward he got another shock, word that his benefactor had died. Sepulveda drove to California, found the man's mother and held out the check to her. She refused to take it.

"He wanted you to have it," she said. "You do what he wanted you to do with it."

Sepulveda returned to San Antonio and with the $50,000 began building what today is one of the largest wholesale produce firms in the nation.

He is a civic leader, a generous philanthropist, a powerful political figure among the city's Hispanics and, at 67, still a workaholic. Long ago he repaid the $50,000 to his benefactor's mother.

In many ways, Frank Sepulveda exemplifies the findings of an 18-month study of the Hispanic business community in the United States. The study was made by the National Chamber Foundation, a tax-exempt foundation affiliated with the U.S. Chamber of Commerce, with the financial support of the Armco Foundation.

"The best-kept secret in the United States," says one executive who worked on the study, "is what has happened to the Hispanic business community in the last decade."

A report summarizing the study's findings lets everyone in on that secret: "Quietly, steadily, Hispanic-Americans have been on the move, building businesses, making jobs, creating wealth. They have proved themselves [people] with talent and drive, and a taste for success. They show every indication of being a stimulus to the economy in the coming decades and a vital resource for growth."

Raul Yzaguirre, president of the National Council of La Raza, an umbrella organization representing more than 100 Hispanic-American advocacy groups, agrees with the study's conclusions: "It's right on. I don't want to belittle the problems of Hispanic-Americans, they're part of the picture. But the study also presents a part of the real picture, one that doesn't get the headlines."

Nuestro, a Spanish-language magazine, reports that sales revenues of the 51 largest Hispanic firms increased 47 percent from 1980 to 1982, compared with a 16.7 percent increase in the gross national product. Sales of the top 100 Hispanic firms averaged $35.7 million in 1982. And the average for the top 440 firms was $11.25 million, a 280 percent increase over the 1977 figure of $2.96 million.

Fastest-growing businesses were in the wholesale food and beverage trade; retailing of luggage and leather goods, toys, and sewing and needlework; personal services, such as dry cleaning and beauty shops; business services, such as security, computers and public relations; and trucking and warehousing.

A relatively new category of Hispanic firms is making gains: professional corporations set up by physicians, lawyers, engineers, architects and accountants.

Given their knowledge of Latin American culture and business practices, Hispanics are, not surprisingly, also involved in international trade. The complexities are daunting for small firms, but this field is expected to offer major opportunities for Hispanic companies and partners from the main stream.

HISPANIC FIRMS are concentrated in California, Texas and Florida. According to the study, the East Coast and, to some extent, the middle of the country have not "focused on the phenomenon represented in the spectacular growth of Hispanic business in the U.S. This . . . reduces business opportunities for the established business sector."

According to the study, recent public focus on the problems of minorities in this country has led many Americans to see Hispanics as people with problems—joblessness, failure and poverty.

Yet, examples abound of successes in what the study calls the Hispanic drive for economic independence.

Estaban "Steve" Taracido, 47, used the capital he acquired as a successful insurance agent in his native Puerto Rico to buy a plant making refrigerated containers for cargo ships. Several successful ventures later, he owns Tele-Signal Corporation, an electronics manufacturing firm in Hauppauge, N.Y.

JULIAN MORRISON *is a Washington-based free-lance writer.*

Steve Taracido owns a Hauppauge, N.Y., electronics company.

San Antonio's Frank Sepulveda is one of America's largest produce wholesalers. He's with son Frank, Jr., in the top photo and in the bottom with Chevy dealer Ernesto Ancira.





PHOTOS: RICK PATRICK

People do not associate Hispanics with high tech industries, he says, an attitude that has hindered him. But the barrier quickly crumbles once a potential customer evaluates the firm's capabilities. Westinghouse recently cited Tele-Signal as one of 134 "honor vendors" among its thousands of suppliers. Taracido is proud of that distinction—but he is especially proud that the citation does not mention the minority ownership.

Taracido is a fierce and eloquent advocate—an evangelist, he calls himself—of the private enterprise system. "I believe in the rolled-up shirtsleeves approach to making a living, and so do most other Hispanics," he says. "They're not looking for handouts; they're looking for profitable *work*. And I'm always preaching to them to go out and become small businessmen, invest in themselves. Be willing to take a chance, work like crazy, don't engage in any slick practices, and you'll succeed. And always keep trying."

Victor Cuellar, once an industrial engineer for a large corporation, was so restive at the restraints of corporate life that in 1975 he chucked it all and joined his immigrant father in the family's small cheese firm in Chicago.

Now president of Cuellar Foods, Inc., he presides over a brand-new plant in Skokie, Ill., as well as the original factory, and has just received a Universal Product Code, which will permit expansion into supermarket chains using electronic checkout. He plans to move west into the huge California market.

Cuellar, 32, puts in a minimum of 65 hours a week. "It's very satisfying," he says. "You can see the results of what you do—good or bad—very quickly. We want to expand not only in the Hispanic market, which is our base, but also into other ethnic markets, because there's a growing acceptance of Mexican food in the general market."

Richard G. Arellano, chief researcher for the National Chamber Foundation's study, says that Cuellar, Taracido and Sepulveda are but three of many successful Hispanic entrepreneurs he uncovered when conducting interviews and compiling case studies from around the nation.

Working with his data and examples, the 38 members of the project's advisory panel—representing Hispanic business, major corporations and academia—identified problems Hispanic entrepreneurs face and offered recommendations.

Hispanics, the study found, want to be regarded as Americans first and Hispanics second and are "profoundly insulted" when perceived as other than an integral part of this country.

Yet because of traditional viewpoints, Hispanic executives have found themselves forced to operate with severe restrictions on access to capital and marketing resources, the study says.

Not surprisingly—given what the study cites as their cultural heritage of economic independence—many Hispanic entrepreneurs shy away from reliance on government or other doles to Hispanic business.

"It is not in the Hispanic business community's interest to be stereotyped as a 'disadvantaged' supplicant, dependent on governmental and private sector largess for its rational development," the report says. Injudiciously used, it says, the minority label can provoke a backlash.

MOREOVER, many Hispanic executives find government help more trouble than it is worth. The Small Business Administration's direct loans and loan guarantees get particularly low marks. One executive told Arellano she abandoned the idea of SBA financing when she found herself entangled in red tape. A Chicagoan complains that what little financing is available takes too long to come through.

The same cultural preference for personal control that keeps many Hispanic entrepreneurs from tapping funds and programs available to help them also results in a preponderance of sole proprietorships. The Census Bureau's 1977 survey reported that only 2 percent of Hispanic firms were incorporated and 5 percent were partnerships; the rest were sole proprietorships. But as Hispanics learn the advantages of incorporating and discover how to sell equity without diluting ownership, Arellano

A Mighty Market

Hispanic-American consumers are a huge and vital market. Purchasing power of Hispanics amounts to some $73 billion annually, but the best is yet to come. The Hispanic population is young—median age is 23, compared with 30 for Americans in general—and thus the peak purchasing years lie just ahead.

An income gap between Hispanics and Anglos is closing. In 1979, the latest year for which figures are available, the average Hispanic household earned 81 percent of the amount earned by the average Anglo household, up from 76 percent in 1974.

And the market is growing. The Census Bureau estimates there are 16.1 million Hispanics this year, up from 9.1 million in 1970. According to the Population Reference Bureau, an independent research organization, Hispanics may number 47 million by 2020, making them the country's largest minority group.

Executives who recognize the potential in those figures are finding ways to break into the market. An insurance agency in New Orleans, for example, has succeeded on the strengths of its founding partners: One concentrates on Anglo customers; the other, a Hispanic, uses his cultural background and language skills to target Hispanic customers.

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says, the rate of incorporations will pick up.

The natural reserve of Hispanic business executives, says the study, frequently makes it difficult for them to approach lenders, suppliers and customers.

Moreover, they often do not understand how to incorporate themselves into the local business structures. The problem can be remedied simply, contends the study. It cites Control Data Corporation's "incubators" as an example. These centers provide office space at reduced prices to small business executives, as well as access to secretarial pools, computer systems, copying services and other business support systems.

Other recommendations:

- Hispanics should wage a nationwide public relations campaign to "reveal the true nature of Hispanic enterprise in the United States."
- Established U.S. businesses should seek out partnerships with Hispanic entrepreneurs, and vice versa.
- Because fluency in English is critical, "school authorities should be urged to abandon any bilingual education approaches that interfere with the learning of English."
- Hispanic entrepreneurs should make full use of federal programs for small businesses. Laws and regulations should encourage investment in the Hispanic business community with such incentives as tax credits.

THE REPORT REJECTS arguments that Hispanic businesses should concentrate on Hispanic markets. "This option would be a self-defeating one, as there is evidence that Hispanic markets may be transitory in nature," the study says. Young Hispanic-Americans especially show strong assimilation tendencies, and they have the greatest potential as a market.

For the mainstream firm, the Hispanic business community in the United States offers numerous opportunities, the report concludes. "It is attuned to a young and growing market which is increasingly affluent [and] which has the potential for reinvigorating some lagging U.S. consumer markets."

To tap these opportunities, established firms might consider joint ventures with Hispanics who can devise culturally sensitive business plans.

"It is not a question of the inability of the established business sector to function in the Hispanic markets, but one of optimizing opportunities," the study says.

It is a big market, and it is waiting. □

For a copy of the study, contact the National Chamber Foundation, Suite 334, 1511 K Street, N.W., Washington, D.C. 20005, (202) 463-5552.

Flush Times at the Statehouse

Recovery, in the wake of tax hikes and tighter purse strings, has brought big surpluses.

By Peter A. Holmes

STATES' COFFERS are full—and even overflowing—these days. A booming national economy is lifting revenues to record levels.

Even in the region hardest hit by the recession, the nation's manufacturing heartland, things are looking up. Says Christina Sale, Ohio's top budget officer: "Ohio is beginning to enjoy—six months behind schedule—the benefits of the recovery."

But the recovery is not the only reason that states are flush. In the last five years there have been 66 state tax hikes of various types, enacted when states sought to balance their budgets as the recession took hold. Collections of taxes and of user fees that go into general revenues are expected to jump 11 percent during the fiscal year ending June 30, according to the National Association of State Budget Officers. A year earlier such revenues grew a scant 3 percent.

Local governments' revenues have been rising, too. Budget surpluses at both state and local levels could exceed $26 billion in 1984, according to Data Resources, Inc., a consulting firm. Two years ago, state and local governments' budgets showed a $1.2 billion deficit.

If state social insurance funds are included, state and local surpluses this year could reach $68 billion, say U.S. Chamber of Commerce forecasters.

One important consequence of these surpluses, says Richard Rahn, the Chamber's chief economist, is that credit markets will feel less pressure as the Treasury Department borrows large amounts to finance the federal budget deficit.

"An aggregate projected deficit for all governments [federal, state and local] of $121 billion," says Rahn, "is equivalent to 3½ percent of this year's gross national product, down from 5½ percent of GNP in 1983."

Fat surpluses following lean times do not necessarily mean that spending is poised to take off.

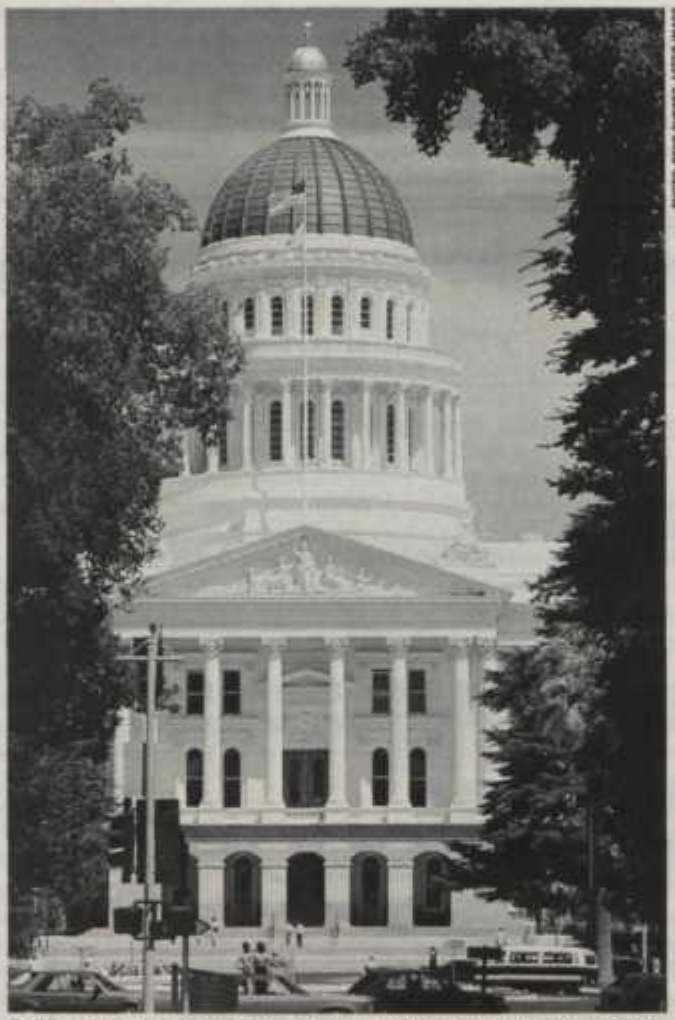


PHOTO: ROSE SHERET-AP/TRI-IMAGE

California legislators have seen a surging economy turn a $600 million budget deficit into a $465 million surplus in one year.

Notes Karen Benker, a fellow at the federal Advisory Commission on Intergovernmental Relations: "This is a perfect year for states to go back to old spending habits." But, she continues, discretionary spending is projected to rise just 7.8 percent in the budget year beginning July 1.

THE PUBLIC'S PRESSURE on legislators to keep spending in check is frequently cited by statehouse insiders as the reason for this cautious mood. The implication is clear: If the heat stays on, both business and individuals may enjoy a respite from rising state taxes.

State finances began to deteriorate in the latter half of 1979 as employment growth rates slackened, especially in manufacturing industries.

The fiscal situation worsened in 1982, ironically, because of a dramatic slowdown in the rate of inflation, which caused states' incomes to grow much more slowly than anticipated.

States benefit from rising prices and higher nominal incomes. The consulting firm of Data Resources estimates that state revenues grow one quarter faster than expenses during periods of high inflation.

Even rich states suffered. Big cash reserves in Alaska, Texas, Wyoming and Louisiana were used up as prices and production of coal, oil and gas slumped and severance tax revenues fell.

One measure of the states' fiscal distress: Standard & Poor's Corporation, the bond rating firm, downgraded the bonds of 12 states between 1979 and 1983.

To balance their budgets, 12 states raised sales tax rates, 13 hiked personal income taxes, and 23 raised corporate income taxes during the 18 months ending in June, 1983. (Only Georgia, Texas and Hawaii avoided major tax increases between 1981 and 1983.) According to S&P, these tax hikes and others enacted in 1981 boosted receipts by $16 billion a year.

Other states canceled tax relief. Of the 10 states that have laws indexing personal income tax rates to inflation, Colorado, Iowa, South Carolina, Wisconsin and Maine have delayed, suspended or nullified the impact of that automatic inflation adjustment since 1980.

(Indexing income tax brackets to changes in the inflation rate is, however, still scheduled to begin at the federal level in January, 1985.)

On the other side of the ledger, state governments abruptly limited the growth in spending: Since 1979 the annual average increase has been less

than 9 percent. That rate is only slightly higher than the overall rise in consumer prices.

By comparison, federal spending between 1979 and 1983 went up about 60 percent—nearly a 15 percent average annual rate.

Strategies for curbing spending vary. Most states have imposed hiring freezes, cut programs, restricted travel allowances and accelerated tax collections. Other states have laid off employes or resorted to unpaid furloughs.

Two reasons for the states' superior performance in controlling spending are cited by Gerald Miller, executive director of the state budget officers' association.

First, unlike the federal government, states do not spend money they do not have: All except Vermont must balance their operating budgets (many operate on a two-year cycle, so deficits in one year can be offset by surpluses in another). And second, 43 give their chief executives power to veto budget items line by line.

STATES HAVE enacted other fiscal discipline devices: tax and expenditure limitations (18 states); requiring more than a legislative majority vote to raise taxes (six states); and "sunset" provisions that entail systematic program review and evaluation (36 states).

Another reason states have applied the brakes to spending: tax revolt. In 1976 New Jersey voters approved a measure linking growth in state spending to growth in personal income. The most noteworthy effort to limit the power of the purse is California's Proposition 13, a constitutional amendment that won voter approval in 1978.

Proposition 13 limited real estate tax increases, and critics argued that the relief it provided was offset by increases in other local taxes. But James Kennedy, who heads the tax section of the California Chamber of Commerce, disagrees.

"Overall," he says, "the tax burden is down. We have become more efficient at both the state and local levels."

What the States Are Doing

Here is a rundown on current efforts to restrict taxes and spending at the state level.

• Alaska: A constitutional change proposed by the legislature would clarify the procedure used to calculate existing spending limitations.

• Arizona: Voters will decide whether to lower an existing constitutional limit on spending to 6½ percent of personal income and set up a fund for future fiscal emergencies.

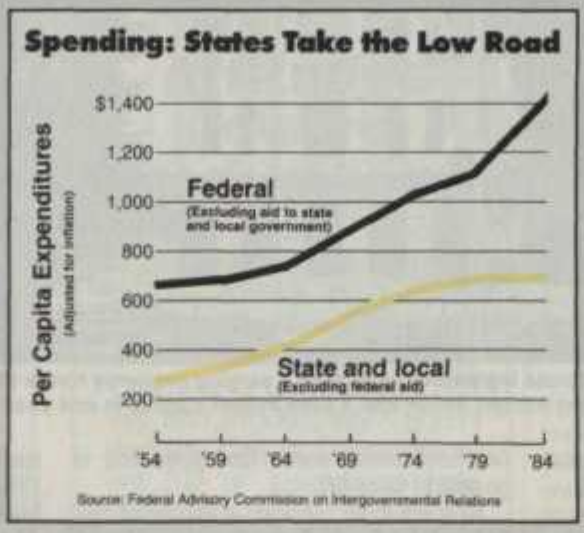
• California: Two (and possibly three) voter initiatives will be on the ballot. One would lower spending limits established by Proposition 13 and rebate $1.3 billion to property owners. A second would limit welfare expenditures to 110 percent of the national average. A third would direct the legislature to call for a federal constitutional convention to limit spending and taxes.

• Florida: The state supreme court recently knocked off the ballot a voter initiative to limit spending increases above 1981 levels to two thirds the rate of change in the consumer price index. (Exceeding this limit would require voter approval.)

• Hawaii: The legislature has reauthorized existing spending limits tied to growth in state personal income, and voters will be asked to enable the state to keep surplus revenues.

• Louisiana: The governor has proposed that the legislature limit future spending to 90 percent of the previous three years' increase in personal income.

• Michigan: A voter initiative expected to be certified in July would rescind all taxes enacted since January, 1982; require a popular vote to increase existing tax rates or pass new taxes; require a popular vote or approval by four fifths of the legislature to adopt new user fees or increase existing ones; prohibit nonresident income taxes in excess of 5 percent.



• Nebraska: Two petitions are being circulated. One would limit spending growth to half the increase in personal income. A second would limit property taxes to 1½ percent of the property's actual value.

• Nevada: A citizen initiative is gathering signatures to amend the constitution by limiting property tax increases to 5 percent and requiring a two-thirds vote of the legislature or local body to pass or increase state or local taxes or fees.

• New Jersey: The governor has proposed a bill to limit spending hikes to a rate based on a three-year moving average of increases in personal income.

• Oregon: One voter initiative with enough signatures to qualify for the ballot would: limit the property tax base and future tax increases; require a popular vote to increase existing taxes or approve new ones; limit fee hikes to the actual cost of service; and give renters the same tax relief property owners get. A second initiative, supported by business, would make existing statutory spending limits a constitutional requirement. It would earmark 80 percent of a new 5 percent sales tax for education or tax relief, and cap the income tax rate.

• Rhode Island: The legislature recently increased to 6 percent the maximum annual growth in the governor's budget request.

• South Carolina: The legislature is considering asking voters to approve a constitutional amendment limiting state expenditures and employment, and limiting debt service on general obligation bonds to 5½ percent of general revenues.

• Washington: A voter initiative would decrease the state sales tax rate to 5½ percent; reduce business, occupation, state property and excise taxes; and provide that they could be raised only with a two-thirds vote of the legislature. It would limit spending by a formula linked to inflation and state population growth.

In the 20 years before its passage, per capita spending by state and local governments in California rose at an average annual rate of 4.1 percent, and the number of public employes per thousand residents rose 1.8 percent a year. After passage, per capita spending and public employment were reduced.

Massachusetts taxpayers discovered, to no one's surprise, that state and local government could be more efficient, following voter approval of Proposition 2½. It limited property tax rates after taking effect in July, 1981.

THE TAX REBELLION has had a chilling effect on legislatures' largess. Inflation-adjusted spending in all 50 states rose an average of 4.4 percent a year for two decades prior to Proposition 13. After its passage, state spending grew only about one eighth as fast, according to the most recent figures available.

Voters have responded positively to this legislative belt-tightening: They have rejected eight of nine tax-limiting initiatives since 1980.

But the states' recent tax hikes and fresh surpluses have provoked a new backlash. Tax or spending limitations may be on the November ballot in as many as seven states, according to the Advisory Commission on Intergovernmental Relations.

Legislatures in another nine states are considering both constitutional and statutory revisions to existing laws that would make it harder to increase spending.

The tax and spending rebellion's renewed vigor means that the budget surpluses of the 1970s—even bigger than those of today—are unlikely to be repeated.

This year, says the National Association of State Budget Officers, the states' operating surplus will be just 2 percent of discretionary spending—a far cry from the 9.8 percent surplus registered in 1978.

Surpluses that large helped cushion the recession's punch. Today's small surpluses may make it harder for Washington to continue cutting federal assistance. According to the National Governors Association, federal aid dropped from 32 percent to 23 percent of state and local budgets between 1978 and 1982.

Many who have watched the states cope with tight budgets in recent years believe that some of the states' fiscal tools can be used successfully to control spending and taxing at the federal level. But so far, Congress, particularly the Democrat-controlled House, has resisted the potentially most effective of these measures—a constitutional amendment that would require, except in emergencies, a three-fifths vote of Congress to approve deficit spending. □

Next Month in **Nation's Business**

The Power of Marketing

Marketing turns small firms into large ones and large ones into giants. It is more than selling or promoting. Here is how chief executives today are using marketing to shape their companies' success.

What To Do With Your Money

Where should a business person like yourself be putting his or her personal funds these days? A special report discusses investment topics that are crucial to you—and to your business as well.

Products With False Names

Legitimate American companies are losing billions to counterfeiters—not counterfeiters of money, but of products. The growing problem of falsified brand names is of mounting concern to business and on Capitol Hill.

Farming: At the Crossroads

U.S. agriculture is in trouble. Lavish government supports are costing it markets abroad and causing chronic oversupply. Congress next year will decide whether to allow the market system to take over.

MOVE INTO HIGH GEAR



The growth and profitability that new trucks are bringing to many companies will be featured in a special report in the October Nation's Business — along with a look at how foreign truck makers are competing with U.S. truck manufacturers.

Be sure to look for the special report on trucks in the October issue.

Nation's Business

Gold Is Glittering Again

By Ray Brady

"It is extraordinary how many storms one may weather in safety if one is ballasted with ever so little gold."

William McFee
Casuals of the Sea

TAKE INVESTMENT advice from a novelist? Perhaps not. Still, a growing number of cold-eyed analysts, who may never have heard of author McFee, are beginning to agree with him. They are coming to the belief that, with the financial markets tossing about like angry seas, this may be the time to salt away some gold in one's portfolio.

As these people see it, nobody can be sure where the economy is headed. If it keeps booming, interest rates could go through the ceiling, and the pessimists would be proved right. Prices of both stocks and bonds could plummet, inflation could come roaring back, and gold could skyrocket in value.

On the other hand, say the same analysts, if the economy simmers down—and there is no inflation, or barely any—the investor who buys gold right now is not risking much. Gold is currently selling at a bargain-basement price of around $385 an ounce, less than half the $875 it commanded in the double-digit inflation days of 1980.

What the analysts are not saying, however, is that you should put every penny in gold. They are not the doom-and-gloom goldbugs of the 1970s, who advised you to buy gold, bury it and then buy a good shotgun to protect it.

Financial consultant Tom Wolfe speaks for the new breed of goldbug: "The Europeans," he points out, "traditionally kept somewhere between 5 and 15 percent of their funds in gold. For Americans right now, somewhere around 8 to 10 percent of the portfolio would be right."

If there is one man today who really understands gold, it is Tom Wolfe. For years, he was the director of all gold and silver operations at the Treasury Department—he was "Mr. Gold." Now, in addition to acting as a consultant, he puts out a publication called *Gold and Money Markets Analysis.*

"The advantage of gold," Wolfe says, "is that the price has gone about as low as it's going to go, and it looks like it's forming a floor. You're not going to see any explosion in the price, but in a year it could go to maybe $450 an ounce—and in the meantime, you've got that protection against inflation."

Gold comes in a variety of investment forms. You can find one if you go through an unmarked door in the lobby of a certain downtown Manhattan office building and descend winding steps to a thick metal door. Press a buzzer, and suspicious eyes will peer out through a peephole. Give the right answer, and you will move into a plain basement room, with no decorations, minimal lighting and hundreds of bars of gold, one stacked atop another—millions of dollars worth of bullion. "We don't worry about somebody grabbing a bar," chuckles a guard. "It's too heavy to run with."

PHOTO: DEAK-PERERA



You can buy gold as bullion or as coins. Other routes: gold options, mine stocks.

That is gold in its most basic investment form. You will have to pay for storage unless you want to squirrel the gold away yourself. On the other hand, you most often can get the best price by buying bullion gold (you are not paying to have it stamped into a coin).

You can also get a certificate representing the ownership of bullion by calling certain banks; you can put such purchases on your Visa or MasterCard. The banks charge fees that approximate what you would pay for storage.

Coins often are the choice of so-called doomsday buyers, people who want gold in a form that can be spent readily if the country enters a political or financial crisis.

Before buying coins, it is advisable to check out a number of dealers. First determine the basic price of bullion gold that day, and then find out what it will cost you to buy coins.

One drawback in buying bullion or coins is that you get no immediate return—no interest or dividends. Also, listen to the words of R. Leslie Deak, president of Deak-Perera U.S., a large metals and currency dealer: "The biggest thing to be wary of is deals that look too good to resist."

DEAK IS WARNING about firms that tell you they can buy coins for you at the price of raw gold or that promise you great rewards for buying gold. Says Tom Wolfe: "Watch out for the fellow who advertises—probably on TV or in the newspapers—that he can get you gold at a discount from the bullion price. The chances are that he is investing in the gold options market, buying a certificate that enables him to buy gold sometime in the future—that's when he'll have the gold you think you're buying today."

Some such dealers have ended up in jail. They guessed wrong on the market—whether it was for coins or bullion—and their investors lost all their money.

"I really don't think what form of gold you invest in is important," says Wolfe. "The important thing is that you deal with a reputable dealer—one of the big banks or better brokerage houses."

The investor can, of course, buy gold options himself (after all, there is nothing illegal about investing in options). In addition, you can buy shares in Canadian, South African and U.S. gold mining companies. Be warned, though: Mining stock prices can be more volatile—up and down—than the price of gold itself.

Be warned, too, that the Internal Revenue Service has been concerned about investors who deal in gold coins and neglect to report their winnings to the taxmen. IRS wants a stronger law against that practice.

But if owning gold—as coins or in some other form—helps the investor make money in the current market, paying taxes may not hurt quite so much. □

RAY BRADY *is the business correspondent for CBS News.*

Creating Big Hits For the Small Screen



PHOTO: STEVE SMITH

Stuart Karl's video production company took off when he taped *Jane Fonda's Workout Book* and persuaded retailers to sell videotapes instead of rent them.

"What fiction was to movie theater films, nonfiction will be to home video," says Stuart Karl. And that idea is the backbone of Karl Video Corporation, which he founded in 1979 when he realized that most video stores rented only movies—many of them X-rated. He was sure there was a market for a much wider variety of videotapes.

Karl, 30, considers his Newport Beach, Calif., company to be the first home video studio, producing original programing that ranges from instructional tapes to comedy series. His first big hit? Jane Fonda's "Workout." After reading *Jane Fonda's Workout Book*, Karl's wife, Deborah, suggested he do it as a video.

Karl has since sold 350,000 copies—it is the second biggest selling video after the feature-length film "Raiders of the Lost Ark"—and Fonda has made two more exercise tapes for Karl. The firm is expected to gross more than $15 million this year. "Jane makes things go real well," Karl chuckles.

Also among Karl's titles: "Everyday With Richard Simmons: Family Fitness", "Computability: How To Make the Most of Your Home Computer," with Steve Allen and Jayne Meadows, and "Swim, Baby, Swim," in which swimmer Esther Williams shows parents how to teach children to be safe in the water.

Why would a comedian demonstrate how to make the most of your home computer? "Steve Allen is very much a computer buff," answers Karl, explaining that all the stars appearing on his videos believe in what they are saying.

Karl's tapes range in price from $29.95 to $59.95, depending on length. The firm also licenses the rights to distribute special network productions, such as John Lennon's last television interview (with NBC's Tom Snyder).

Karl began his entrepreneurial career at 19, when he started a trade journal for the waterbed business with only $200—enough to print the first issue. When it sold well, he started a magazine for the hot tub trade, a city magazine and a weekly newspaper. Then, tiring of publishing, he sold his publications and began looking for a new investment.

Six months later, he was back in publishing. He had bought a videocassette recorder and discovered there was no trade journal for the video retail business. The new venture was called *Video Store*. It soon taught him that the industry and its customers needed some alternatives to movies. He sold the magazine and used $60,000 from his publishing ventures to launch Karl Video.

His early productions did not catch on quickly, because, he explains, "at the time, there were only a million or so VCR owners." Now, he estimates, about 100,000 recorders are sold each week.

But his success really began when he realized that selling videotapes required a marketing approach different from the more common practice of renting them. It particularly meant educating retailers. Selling is more profitable, Karl tells them. "A guy rents a movie and makes $2. A guy sells a Fonda tape and makes $20." To reinforce the message, Karl Video is distributing its booklet "The Art of Selling Home Video" to retailers and following up with sales seminars in several cities.

Karl attributes his company's growth to his energetic employes and their belief in the product. "We get here around 4:30 a.m. and don't go home until 8 or 9 p.m., and then we pick up the phone and talk to each other," he says. "We feel we can actually contribute to society with this company by teaching people."

Karl Video is one venture Karl does not expect to tire of despite the long hours.

"Friends of mine say I'm so lucky," he says. "You make your own luck. Work seven days a week, and you'll get lucky."

—Nancy Croft

Unhandicapped By a Handicap

"Anyone who has a handicap develops a tough fabric in order to deal with life's problems," says Herbert L. Lande. He ought to know. He has been a stutterer all his life.

But that did not keep him from starting Arbor House Properties, Ltd., a Long Island company that purchases and manages income-producing real estate in the sun belt states for investors. The company's portfolio of garden apartments and small shopping centers carries a total value of $130 million. This year, Lande expects to buy additional properties worth about half that amount.

When Lande graduated from Syra-

PHOTO: ELIZABETH MARSHALL



Determined not to let stuttering beat him, Herbert Lande founded two successful firms and is ready for a third.

cuse University in 1963 with a degree in economics and business, he was told, he says, that "I'd be unable to deal with tension because of my stuttering." He worked for several small firms to assure himself that he could handle a business setting, and in 1965, at 23, he joined Greyhound Leasing and Financial Corporation, a Greyhound Corporation subsidiary specializing in aircraft leasing.

A year later, he left to start his own business as a financial consultant for the airline industry. He soon found himself serving as a financial adviser to investors in the negotiation and structuring of transactions, especially real estate tax shelters.

"I wanted to have my own business because that eliminated the need to please an employer and I could be more performance-oriented," Lande recalls. Former employers "tended to be uncomfortable when I spoke," he explains. He wanted people to judge him on results and not be concerned with his handicap.

Lande, 42, founded Arbor House six years ago in Garden City. In the beginning, he had to do everything himself. He personally located and negotiated the purchase of the properties and found investors to fund the deals. Today his firm employs 175 and has additional offices in New York City, Tampa and Jacksonville. Its portfolio consists primarily of garden apartments and small shopping centers.

The challenge, according to Lande, is to choose properties that will weather the inevitable economic cycles and be more valuable in the future. He concedes that a substantial portion of Arbor House's investors, whose average net worth is $750,000, seek tax shelters and initially tend to be less concerned with a property's potential for appreciation.

"They may be happy thinking this way," says Lande, "but they will ultimately reinvest with Arbor House based on the profitable sale of their properties. So we can't afford to overlook the economic merits and think in terms of tax benefits alone."

Lande is also mindful that proposed changes in tax laws might hurt the short-term market for tax shelters. Arbor House is therefore shifting its emphasis to the purchase of properties that suffer from poor management or inadequate financing but have the potential for high cash yields in the near future.

For the past three years, Lande, who lives with his wife and three children in Merrick, N.Y., has been on the board of the Long Island Philharmonic. His interest in the arts took a business turn a year ago when he and a friend, Steven Romm, formed Romm-Lande International Arts, Ltd., a publisher and distributor of fine art posters, based in Carle Place, near Garden City. Lande owns 80 percent of the firm, which expects about $2 million in sales worldwide this year.

The culture connection satisfies Lande in a way that real estate transactions do not. "You make a $5 million or a $10 million deal, and it's just another day at the office," he observes. "But you walk into a store in Denver, say, and you see your poster—*that's* exciting."

Now the biggest challenge facing Lande is launching a luxury airline, Bicoastal Air Service, by fall. The venture would convert two wide-bodied Boeing 727-200 aircraft that hold 180 passengers each into 50-seat planes with swivel and sleeper seats, fine food, a conference room, lounges and dressing rooms. Roundtrip fare between New York and Los Angeles would range from $515 to $920.

Stuttering made childhood tough for Lande, depriving him of a lot of the fun that most youngsters have. But, he says, "it seems to have built in me a powerful determination to be a leader and a success in my adult life."

And sometimes, his handicap is not a handicap. "People generally wait for me to finish my thoughts, and that's to my advantage," he says.

—Bruce W. Fraser

Defense Contractor Par Excellence

When American troops deploy to Lebanon, Grenada or any other hot spot, W. Melvin Brown, Jr., of North Charleston, S.C., knows that some of his products increase the soldiers' chances for survival.

Brown, 51, is president and chief executive officer of American Development Corporation, a defense manufacturing firm that is a model for entrepreneurs with a good idea and a willingness to work long hours.

"My motivation for this venture began when I was an insurance consultant to several large businesses," says Brown. "As I developed programs tailored to those businesses, I realized I could design and operate my own firm."

He started ADCOR in 1972 with a $200,000 Small Business Administration loan. Although meeting early payrolls was sometimes difficult, Brown paid off the loan within three years. In 1977, ADCOR landed on *Black Enterprise* magazine's list of the top 100 black businesses; it ranked 82nd, based on sales of $3.5 million. It has moved steadily up the list, placing 18th this year with sales of more than $30 million.

How did Brown get that initial capital? "I applied the same careful inspection to the marketplace that I did to intricate insurance plans," he answers. "I had a background in science, and I combined that with a sound business plan for manufacturing technical products. I studied *Commerce Business Daily*, a government publication showing what contracts are available to fill the need for various defense products."

Then Brown developed his plan for manufacturing and delivering several technical systems. Chief among them are the company's electronic mainte-

PHOTO: PHILIP LEON



nance vans. These 30-foot vans, resembling the trailers on 18-wheel trucks, house an array of sophisticated electronic gear for on-site repair of sensitive communications equipment. ADCOR has produced over 300 of the vans for the Army.

Another product: the M-332 ammunition trailer. "We're the Army's prime contractor for this tactical, mobile system," Brown says.

He says one of the secrets of his success is that ADCOR builds its vehicles from scratch.

"We fabricate steel, assemble frames, install electrical systems, paint them, test them for heat and cold in an environmental chamber, and even drive them over simulated combat terrain. Because we do not have a heavy dependence on other suppliers and fabricators, we are able to set and meet our own production schedules."

ADCOR contracts specialist Gail MacCray Pinckney says, "A defense contractor doesn't simply submit the lowest bid. If you want to succeed in this business, you must develop a fiscally sound program, assure the government that you can produce and deliver the item and then establish a pattern of making good on your promises."

So far, ADCOR has done just that, and it has acquired a reputation in the defense industry for reliability and quality. Recently the firm won a $62 million contract for the Army's newest generation of topographic support systems. This computerized equipment receives radar or satellite signals and prints out topographic tactical maps on the spot, anywhere in the world.

Says Brown: "Our continual program of research and development assures that we are not limited to just one or two products. When the times change, we'll change with them."

Brown's 370,000-square-foot plant is testimony to his vision of 12 years ago. His 350 employes consistently resist efforts to establish a union. "We treat everyone fairly, and we expect hard work," Brown says.

"Our motivation comes from a combination of profit incentives and the knowledge that we are providing essential equipment for the national defense."

—Philip Leon



W. Melvin Brown's firm, which makes military vehicles, got started with a $200,000 U.S. loan. He repaid it quickly.

Teaching Employes To Be Healthier

Steven M. Passin spent nearly all of the 1970s in the health care planning field—including stints as California's deputy secretary of health, vice president of Hunterdon Medical Center in Flemington, N.J., and chief operating officer of the Cooper Medical Center Foundation in Camden, N.J.

"What I discovered was that the real causes of modern illness—heart disease, stroke and so on—are lifestyle-generated activities," he says. "They are the result of what we do to ourselves." He maintains that "diseases of choice" are responsible for over 80 percent of deaths in this country.

Health costs may be soaring, but Passin learned that only about 5 cents of every health-care dollar goes to the prevention of illness. He saw a need to do something that would shift society from a "sickness mentality," with the emphasis on paying for illness, to a "wellness mentality," with the emphasis on educating people to keep themselves healthy.

Five years ago, he founded Well-Being, Inc., a suburban Philadelphia consulting firm that conducts "wellness" programs for industry and government. Among its clients: RCA Service Company of Cherry Hill, N.J., a division of RCA Corporation; Mutual of New York; and Chase Manhattan Bank.

With a staff of just three, Well-Being uses free-lance health specialists to diagnose the health needs of its clients and conduct workshops for their employes. Workshop topics range from a nine-hour series called "Taking Charge of Your Health" to nutrition and stress management. A client may also purchase laboratory tests for its employes.

Cost is $50 to $80 per person, depending on which program the client chooses and how many employes participate.

RCA hoped 50 employes would enroll when it ran its first series of Well-Being programs last winter. Instead, 118 signed up, according to Mary Ann Sladzinski, director of organization development and employment.

Most employes who participated report they are doing more positive things about their health as a result—such as losing weight or cutting out junk food, Sladzinski says.

"They also feel the company cares about them as individuals, so their morale and motivation are increased," she says.

And Steve Passin believes that employes who are better educated about health are "committed to a sense of excellence about themselves that will translate into job performance." (Though he bemoans his own extra poundage, Passin says he is making progress. Using some of his company's techniques he has shed 20 pounds and started to exercise, and he practices breathing techniques for relaxation. "And I haven't been sick in years," he adds.)

PHOTO: S. BEARD



Steven Passin reviews a Well-Being program for Mary Ann Sladzinski of RCA Service, one of his clients.

Well-Being did $75,000 worth of business last year, and Passin expects its revenues to double this year and next and go up dramatically, to $5 million to $7 million, within five years. Eventually, he hopes to take the firm public.

The picture was not always so bright. For Passin, 38, the toughest part of getting Well-Being off the ground was going without a salary for two years. He had to count on his wife, Catherine, a personnel administrator, to support him and their daughter, Courtney, now 11. It was a difficult role change. "We had to learn how to communicate to get through that," says Passin.

The Passins sold their house and put $40,000 into the venture. Passin raised another $20,000 from some members of a board of directors and an advisory board that he created for the company. And last summer, $75,000 was raised in a limited private stock offering.

Passin says it was a pleasant shock that people would put so much trust in him and his company. "I haven't slept since!" jokes the balding entrepreneur. "I used to have hair."

—Sharon Nelton

Where I Stand

1. Assess Employers For Job Training?

As the nation's smokestack industries have been buffeted by economic changes in recent years, thousands of jobs have been eliminated.

Although many affected workers have found other employment, some need job-search assistance or retraining.

Several groups and political figures, including presidential aspirant Gary Hart, have urged creation of an "individual training account," similar to the individual retirement account. A worker suddenly without a job could tap the account to acquire new job skills.

A House bill would create a self-financing program, with worker and employer each contributing at least $250 annually, up to a cap of $4,000, to a U.S. Treasury account. The worker would get a 100 percent tax deduction, the employer a 125 percent deduction. An employer of more than 25 workers who chose not to participate would pay an annual tax penalty of $14 per worker.

Sponsors of the bill estimate the annual tax loss at $72 million. Opponents cite the tax loss and maintain that the program could offer a financial incentive for people to remain unemployed.

Should employers have to contribute to individual training accounts?

2. Establish Tax Amnesty?

Massachusetts recently raised $54.6 million that state officials were not expecting. This windfall came from more than 60,000 people, under a 90-day tax amnesty program. The state promised there would be no criminal or civil penalties for tax evaders who voluntarily paid back taxes and interest.

People eager to reduce the size of the federal deficit have suggested such a program at the national level. In fact, the federal government from 1919 to 1952 granted immunity from criminal prosecution to those who voluntarily disclosed their evasion without being targets of an investigation. Problems, including higher administrative costs and bribery of officials to falsely certify that evaders had disclosed their status before an investigation, caused the program to be dropped.

Data from the 1940s suggest that the government would gain $6 billion to $10 billion a year from a continuing amnesty. Opponents say amnesties encourage tax evasion, discriminate against those who pay their taxes on time and therefore do not get extra use out of the money, and are difficult to administer.

Should the federal government establish a tax amnesty program?

3. A Federal Sunset Law?

Like featherbedding provisions in union contracts, some federal laws address issues that have long since dramatically changed.

For instance, the Rural Electrification Administration was established in 1935 to bring electricity to rural areas. Only about 11 percent of farm areas had electricity then, but by 1964 some 98 percent of farms had electric power. However, the REA lives on.

Because so many laws address conditions that later change, some people have called for periodic reviews of all federal laws.

Several states require such reviews of their own legislation. They have "sunset" laws, so named because the sun sets on a program unless it is reenacted, although there frequently are exempted programs.

Opponents maintain that a federal sunset law would burden Congress to the point that current problems could not be addressed. Supporters of such legislation argue that the nation needs a way to prune dead laws and that new programs should contain specific expiration dates.

Should the federal government enact a broad sunset law?

You can respond easily to this monthly poll on major business issues by using the attached postage-paid card. Your letters to the editor on these issues are welcome. See box on page 10 for address.

Verdicts on Vote Projections, Oil, Jobs Tax Credit

Margins were lopsided on two of the Where I Stand questions in the May issue: Should broadcasters project election outcomes before polls close? Should the United States lease offshore land for oil drilling? However, there was a close margin on the other question: Should the Targeted Jobs Tax Credit program be continued?

Nearly 8 of 9 readers opposed projection of election results, a practice that sometimes has inhibited voting, and more than 8 of 9 favored offshore oil exploration, a target of environmentalists. But there was no majority—only a plurality—on the Targeted Jobs Tax Credit program, which Congress is expected to extend this year. The program, created in 1978, allows employers a tax credit of up to $4,500 for each worker hired from one of nine target groups.

	Yes	No	Undecided
1. Vote projections	11.0%	85.5%	3.5%
2. Offshore oil leases	83.4	10.0	6.6
3. Jobs tax credit	43.6	48.0	8.4

More than 1,300 readers took part in the poll. Results will go to the appropriate government decision makers.

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TO YOUR HEALTH

Laughter's Healing Power



PHOTO: T. MICHAEL KEZA

By Carollyn James

THE NEURAL circuits in your brain begin to reverberate. Chemical and electrical impulses start flowing rapidly through your body. Your pituitary gland is stimulated; hormones and endorphins race through your blood.

Your body temperature rises half a degree, your pulse and blood pressure increase, your arteries and thoracic muscles contract, your vocal cords quiver, and your face contorts. Pressure builds in your lungs. Your lower jaw suddenly becomes uncontrollable, and breath bursts from your mouth at nearly 70 miles an hour.

This is surely no laughing matter. Or is it?

It is. In fact, it is a clinical description of the body in a burst of laughter. It sounds dreadful, but we all know it feels wonderful.

Nothing cleanses the soul and the body quite like an explosion of mirth. We have been told for years that laughter is the best medicine. Now we find that is more than just another quaint saying. Organs and muscles get exercise, stress is relieved, and the psyche is purged.

He who laughs, lasts. Ask Norman Cousins, former editor of *Saturday Review*. He believes he cured his own serious collagen disease by taking massive doses of vitamin C and laughing through hours of Marx Brothers films and "Candid Camera."

"Laughter interrupts the panic cycle of an illness," says Cousins, whose book about his cure, *Anatomy of an Illness*, was recently turned into a television movie. "Humor, and the entire range of positive emotions, can play an important role in medical treatment."

Teaming up with comedian Bill Dana, (remember José Jiminez?), Cousins has taken his message on the road to medical professionals at conferences across the country. He wants to convince them that humor is a vital part of curing.

"There's no doubt psychological factors are basic in bringing on and treating disease," Cousins says. "We're not machines to be funneled into repair shops for new spark plugs."

Dr. O. Carl Simonton of the Cancer Counseling and Research Center in Fort Worth agrees. "The role of laughter is essential in health," he says, maintaining that a sense of play goes far to create well-being.

Joel Goodman, a management consultant, predicts that one day soon, doctors will be asking, "How's your laugh life?" during annual physical examinations. Goodman's Humor Project in Saratoga, N.Y., shows businesses how humor can play an active role in maintaining the health and morale of employes.

He points out that unrelieved stress and tension—often job-related—are known to contribute to ulcers and colitis, as well as to psychosomatic aches and pains. Such ailments can lead to absenteeism and low productivity.

LAUGHTER IS important on the job in another way. As Goodman notes, technical and organizational skills are not enough for job survival; the ability to cooperate is just as important. Studies show, he says, that a majority of people fired from their jobs are discharged because they could not get along with co-workers or managers, and he contends that people who know how to laugh have a better chance of coping effectively with the interpersonal problems of the workplace.

Humor, Goodman observes, may be the least expensive human relations tool around.

"People who don't laugh at work," he says, "fall into tunnel vision—saying, 'my way and only my way.' They're not as open to creative solutions." He adds that ideas flow when people experience rapport with one another.

Tempers can be defused, teamwork can be forged, and the blow of bad news can be softened—all by laughter. Ultimately, laughter makes an office a place where people want to work. And once the adrenal gland is stimulated by laughter, the release of adrenalin makes them more alert.

Just as laughter is vital to an individual's health, so it is essential to the individual's working environment. It is said that we average 15 good laughs a day. If we did not laugh at work, we would probably have to laugh ourselves sick when we got home. □

CAROLLYN JAMES *is a free-lance science writer based in Washington.*

Freer Trade Across Our Open Border?

Americans and Canadians are talking about dropping more barriers.

A CANADIAN tourism advertisement proclaims that the United States "borders on the magnificent." Trade statistics suggest that Canada borders on the *munificent.*

Last year, Canada enjoyed a $13.9 billion trade surplus with its southern neighbor. It sold $52.1 billion in goods to the United States (compared with Japan's $41.1 billion) and bought $38.2 billion worth of Yankee products (compared with Japan's $21.8 billion).

The trade surplus, which has helped pull Canada's economy out of its recession, emerged as America's earlier rebound produced demand for goods from the north. The strong American dollar has encouraged Canadians to consume their own products, further strengthening the Canadian economy.

A Commerce Department forecast sees a similar trade imbalance in 1984 between the world's biggest-volume trading partners. But there are also signs that Canada's gradual return to economic health will soon trigger a greater desire for American products, particularly for manufactured goods, vehicles, industrial machinery, agricultural equipment and chemicals.

The United States and Canada are uniquely bonded and interdependent, to an extent most take for granted.

Says Paul Robinson, U.S. ambassador to Canada: "We are keenly aware that our two countries are each other's best friend, as well as leading trade partner, and that we share the tasks of defending our continent and safeguarding our environment. We participate in a common heritage of law, language, literature and very often genealogy."

Nonetheless, Canadians complain that they are often "sideswiped" by American responses to what Congress perceives as the unfair trade practices of nations like Japan and European Common Market countries. Even when Canada is not targeted for punishment, it suffers from general trade actions because 70 percent of its exports go to the United States.

Noting with alarm the number of protectionist bills in Congress, Allan Gotlieb, Canadian ambassador to the United States, told a U.S. Chamber of Commerce audience last spring: "We may be innocent bystanders, but if and when protectionist action is taken, our trade interests will probably be harmed."

An American decision to limit imports of certain steel products, though aimed elsewhere, brought howls from Canada's steel industry. American import controls on beef stung, too.

Canadians and Americans also clash because they offer many of the same products to other countries. As Prime Minister Pierre Elliott Trudeau told American journalists recently: "At the same time we are each other's best customer, we are in numerous sectors each other's strongest competitor, in your market, in ours and in others, and we watch very closely to see whether the other guy is getting an unfair advantage."

LAST YEAR, the Canadian government proposed that informal discussions begin on removing all restrictions on certain kinds of trade. A working model for such agreements exists in the 1965 treaty known as Autopact, which erased all boundaries between the two countries' vehicle manufacturing industries.

The Reagan administration was receptive to the Canadian proposal. After talks between Canadian Minister for International Trade Gerald Regan and U.S. Trade Representative William Brock, it was settled that the discussions would focus first on steel, agricultural and urban mass transit equipment, and "informatics," a word coined to embrace all forms of high tech computer and communications goods and services.

Exploration of free trade in textiles, petrochemicals and various services was left for later talks.

The discussions, including private and public participants, are proceeding slowly—by common consent—because both countries are preparing for national elections and the issue of bilateral free trade is politically touchy, especially in Canada.

There, the issue transcends economics and is bound up with that nation's political identity. Lined up on one side are

PHOTO: JOHN DE VISSY—MASTERFILE



One focus of free trade talks: mass transit cars made in Canada.

PHOTO: JOHN COLETTI—STOCK BOSTON



Boston and other U.S. cities use Canadian equipment now. Also under discussion: free trade in farm equipment, steel, computers.

the "continentalists," who foresee abundant economic benefits from free trade. On the other, the "nationalists" resist what they contend is already a too-integrated relationship with the United States.

The Trudeau government tends to argue that Canada's political independence is secure and that free trade with the United States would allow Canada to streamline its industries without the worry that protectionist storms might blow north.

Gerald Regan recently branded the nationalist argument "a type of inferiority complex which ignores the success of Canadian exporters in competing in international markets." He asked: "Has European economic integration resulted in a perceptible loss of national identity or appreciation of national interest by the nations involved? If so, it is difficult to discern."

Brock, the Reagan administration's most vocal free trader, hopes that the discussions with Canada will be the beginning of a less protected trading system worldwide. He has invited other nations to join the talks.

"The logic of the free trade zone with Canada," Brock says, "is that it enhances both our abilities to compete with the Japanese—and that's a worthwhile goal."

Another American incentive to pursue free trade with Canada is expressed by Anne Hughes, deputy assistant secretary of Commerce for North America: "We feel that our access to the Canadian market is not as open as ours is to Canadians."

As for Canada, a top American official privately assesses its motives this way: If the United States is going protectionist, Canada "would rather be inside our barriers than outside."

"Open Season On Consumers"

Trade barriers to imported goods are expensive, for American businesses and for individual consumers. They protect some producers from foreign competition but impose hidden costs on the rest of the economy.

That is the message of Consumers for World Trade, a Washington-based group made up of 2,800 companies and individuals. CWT has joined the Reagan administration and business organizations like the U.S. Chamber of Commerce in opposing efforts in Congress that would shelter domestic industries.

"The protectionist drive," says CWT President Doreen Brown, "is becoming open season on consumers. Whether in autos or steel or dozens of other products, the results would be the same—to raise prices."

The strong dollar, coupled with the surging economic expansion, has greatly stimulated American demand for foreign goods, leading many domestic industries to seek protection.

Observers say that not since the Depression has the cry for higher trade barriers been as loud. More than 100 bills in Congress and 143 appeals before the International Trade Commission call for various forms of import restrictions that would affect food, clothing, shelter and transportation goods.

"Not by accident," says Brown, "these new measures to restrict imports have been timed to come for decision before Congress or the President shortly before the November elections, at precisely the time when the protectionist lobbies calculate that both Congress and the President will be most vulnerable to political pressures from special interest groups."

Domestic content legislation requiring autos to contain certain amounts of American-produced parts, for example, would slash the number of foreign imports, says a CWT report, and raise new car prices $1,000 to $3,000 on top of the already inflated per-vehicle cost that has resulted from Japan's auto import quota.

"Without the relatively inexpensive foreign goods," says Brown, "economists estimate the consumer price index would be several points higher than at present. The availability of these [foreign] goods is an essential brake on inflation. But if the protectionists have their way, this deterrent to inflation will be stripped away, prices will soar, and consumers will pay ever-higher prices in order to subsidize special interests." □

—Henry Eason

The High Cost of Barriers

Consumers for World Trade gives these estimates of what U.S. consumers pay in extra costs as a result of American import restrictions on selected products:

Japanese vehicles (per unit)	$1,900
Dairy products (annually)	$1.5 billion to $4.9 billion*
Meat (annually)	$1.2 billion
Motorcycles (per unit)	$400 to $600
Peanuts (annually)	$200 million
Steel (annually)	$7.25 billion
Sugar (annually)	$3 billion
Textiles, apparel (annually)	$18.4 billion**

*Depending on the outcome of various trade negotiations and legal cases.

**In 1980 dollars.



What You Can Do About Washington Issues That Affect Your Business

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
APPROPRIATIONS	Congress has a track record of making election year promises that can be kept only by borrowing money. Economic improvements achieved in the past three years might be placed in jeopardy.	Members of the House and Senate: Show budget restraint and fiscal responsibility by including only necessary funding in the 13 regular appropriation bills. Excess spending could hurt the long-term expansion.
DOMESTIC CONTENT	Thousands of domestic jobs would be lost through foreign retaliation if congress bows to protectionist demands and adopts narrow-minded legislation reducing auto imports. Our foreign trading reputation would be hurt.	Members of the Senate: Do not set bad precedents by passing restrictive trade legislation. Long-range economic harm may be caused by your attempts to find short-term solutions.
NATIONAL INDUSTRIAL POLICY	Business needs to be aware that the full House may soon vote on bills restricting free flow of capital and credit. Measures seek an increased federal government role in economic decision making.	Members of the House: Central economic planning proposals have not worked in the past and will not in the future. Do not saddle our free enterprise economic system with more nonproductive restraints.
YOUTH DIFFERENTIAL	Business would be allowed to hire at reduced wages new teen-age employes for summer work if Congress adopts legislation pushed by the administration. Unemployment would decrease.	Members of the House and Senate: Grant teen-agers an opportunity to begin building an employment record by allowing employers to expand the job market with a wage differential.
HAZARDOUS WASTE	Implementation of the House-passed bill would require extensive paper work by small business. The pending Senate bill, containing unrealistic deadlines, needs to be amended.	Members of the Senate: A sensible cleanup schedule requires reasonable deadlines. Support the Environment Committee's amendments to retain needed Environmental Protection Agency flexibility.
SUPERFUND	Business costs, and therefore consumer costs, could be much higher in a misconceived expansion of current toxic waste cleanup.	Members of the House: Business supports a timely cleanup of waste sites. Proposed changes would hinder progress of the existing program.
CONTRACTING OUT	Government contracts to business for goods and services may be reduced if some congressmen get their way and restrict contracting-out policies.	Members of the House and Senate: Encouraging and not discouraging contracting out to the private sector will lead to better quality products at more competitive costs.
INTERNATIONAL DEVELOPMENT ASSOCIATION	Funding of IDA will allow continued export of U.S. goods and services and provide stability in the developing world. The balance of payments ratio will be improved.	Members of the House and Senate: Urge prompt IDA replenishment to spur continued growth of trade with less-developed nations and increased employment at home.

Why Tax Hikes Won't Lower Interest Rates

A great deal of nonsense is being peddled in Washington these days on fiscal policy steps needed to bring down interest rates.

One faction holds, for example, that increased taxation is the only cure for the problem of "crowding out." The argument goes like this: Federal borrowing takes so much money out of the capital markets that private sector borrowers are crowded out. Their bidding competition for the leftover capital drives up interest rates. If taxes were raised, federal borrowing demands would ease, there would be more capital for the private sector, and interest rates would fall.

Really? Look at it another way. Taxes would drain from the private sector funds that individuals are now putting into the savings accounts and investments that form the pool of lending capital, thereby decreasing the total amount available to lenders.

Those taxes would also take from business more of the earnings now used for internal financing, and companies would have to turn to the credit markets to make up the difference.

Higher taxes, therefore, would decrease the amount of capital available for lending and increase the demand. And just what do the tax-increase advocates think *that* would do to interest rates?

The obvious answer is one of the many reasons why spending cuts are the only economically sound route to deficit reduction.

The Democrats Could Defeat Themselves

The long, bitter and divisive fight for the Democratic Party's presidential nomination ends officially this month at the national convention in San Francisco.

One of the most formidable challenges in modern political history will face the nominee.

He must first try to unite the party. This will be extremely difficult, given the sharp differences that developed during the primaries.

Next the challenge is to unseat an incumbent, elected President, which has occurred only three times in this century, and then only under exceptional circumstances.

This year, the opposition party will be challenging a President who is presiding over an economic recovery, has the backing of a rejuvenated party and enjoys a high job approval rating among voters generally.

The uphill battle Democrats face will require a highly aggressive campaign strategy. But the national interest requires that their campaign be keyed to specific alternatives to the incumbent's policies. The Democrats' candidate would not be serving himself, his party or his country by promising expensive new government ventures that could endanger the nation's overall economic health.

That approach would be overwhelmingly rejected by voters—and rightly so.

Mindless Opposition To a Good Idea on Jobs

People who like to proclaim the inevitability of "an idea whose time has come" are probably unaware of the workings of the U.S. Congress.

That body has a long and successful history of resisting ideas whose times have come. A current example of such an idea is a proposal to allow employers to hire youths 16 through 19 years old for summer work at wages below the federal minimum.

The plan would ease the painfully high jobless rate among youths in that age bracket, particularly those in minority groups. It would let them begin acquiring the work experience and discipline they will need in whatever occupations they eventually enter.

Under the legislation pending in Congress, employers could pay such workers $2.50 an hour between May 1 and September 30. Despite the built-in safeguards and the urgent need to bring down the jobless rate among youths, organized labor opposes the measure.

Big labor views the proposal as an attempt to undercut the minimum wage law and as an inducement to companies to replace older workers with younger ones hired at the lower rate.

As a result of that opposition, hundreds of thousands of teen-agers, who would welcome a chance to acquire basic job skills and be paid $2.50 an hour for doing so, are walking the streets this summer.

Sponsors of the youth minimum plan should press their case until Congress recognizes the opportunities the plan offers. □

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